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Yeltsin's new lunge at reform

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Say it with a kiss

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Not another Yugoslavia

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Coal in Japan

Oldest pit nears melancholy end

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World Business Newspaper http://www.FT.com WEDNESDAY MARCH 19 1997

FT telecoms

Today, the FT publishes the first in a new series of telecommunication surveys – with a special focus on emerging markets as well as reports on technology, news, reviews and interviews.

Separate section

Bulldozers start work at Israeli settlement site

Israeli prime minister Benjamin Netanyahu defied world opinion and sent bulldozers to clear land for construction of a Jewish settlement at Har Homa in Arab east Jerusalem. Chief Palestinian negotiator Saeb Erekat said it was "a black day for the peace process". Hamas, the Islamic Resistance Movement responsible for bombings in Israeli cities last year, called for a Palestinian uprising. Mr Netanyahu said: "We intended to build. We promised to build. And we are building." Page 14

Norway accused of dumping: Sir Leon Brittan, the European Union's chief trade negotiator, is expected to recommend a 13.7 per cent import duty on Norwegian salmon after the European Commission accused Norway of dumping. Page 14

Poll shows Europe-wide jobs fears: Job insecurity and fears about unemployment are rife across Europe, a survey by the Mori polling organisation shows. Page 2

Italy issues eurobond: Italy stepped up its drive to become a founding member of the European single currency by becoming the first country to issue a bond denominated in euros. The 1bn euro ($1.15bn) issue was bought up quickly, mostly by European investors. Page 15; Camdessus raises fears, Page 2

Wallenberg to be bank chief: Jacob Wallenberg of Sweden's leading industrial dynasty is to become chief executive of its financial flagship, Skandinaviska Enskilda Banken. Page 15

Profits surge at Goldman Sachs: A rise in first quarter profits at Goldman Sachs, Wall Street's largest investment banking partnership, to $905m from $565m underlined the strength of the global securities and mergers and acquisitions business. Page 15

Serfin deal with HSBC expected: Serfin, Mexico's third largest bank, is expected to announce an association with international banking group HSBC Holdings after Serfin said problems with poor quality loans had pushed it deep into the red for 1996. Page 15

Defector flies to Philippines: Hwang Jang-yop, the first official to defect from North Korea's inner circle in a bid to reach South Korea, flew to Manila after five weeks in Beijing. Page 6

CNN in Cuba: International television group Cable News Network became the first US news organisation in nearly 30 years to open offices in communist-ruled Cuba. Page 14

Fifty die in Russian air crash: A Stavropol Airlines airliner on a flight from Stavropol in southern Russia to Turkey is believed to have exploded before crashing 37 minutes after take-off, killing all 50 people on board.

Japan to liven property market: Japanese prime minister Ryutaro Hashimoto told the finance ministry to announce long-awaited proposals to stimulate the property market. Page 6; Bonn boost for building industry, Page 3

Sudan accepts economic package: Sudan eased the threat of expulsion from the International Monetary Fund by accepting a package of economic reforms including measures to tackle its $20bn foreign debt, western bankers said. Page 7

Thai Airways refused cash for aircraft: The Thai cabinet approved a plan by state-owned Thai Airways to buy 21 aircraft from Boeing and Airbus over fiva years but refused to authorise spending, saying the airline must find alternative sources of finance. Page 5

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	6,947.93	(-7.55)
NASDAQ Composite	1,274.68	(-4.75)
Europe and Far East		
CAC40	2,573.95	(-14.43)
DAX	3,291.19	(-59.80)
FTSE 100	4,356.8	(-16.5)
Nikkei	18,445.20	(+391.70)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.259%
Long Bond	95¾
Yield	6.959%

OTHER RATES

UK: 3-mo Interbank	6⅛%	(same)
UK: 10 yr Gilt	100⅞	(100⅞)
France: 10 yr OAT	105.68	(105.71)
Germany: 10 yr Bund	100.61	(100.91)
Japan: 10 yr JGB	105.133	(105.741)

NORTH SEA OIL (Argus)

Brent Dated	$19.55	(19.015)

GOLD

New York: Comex (Mar)	$349.9	(347.9)
London: close	$347.95	(349.35)

DOLLAR

New York: lunchtime		
£	1.5898	
DM	1.67225	
FFr	5.6445	
SFr	1.438	
Y	122.155	
London:		
£	1.589	(1.5873)
DM	1.6782	(1.6901)
FFr	5.6638	(5.701)
SFr	1.4407	(1.4583)
Y	122.61	(123.685)
Tokyo close:	Y 123.7	

STERLING

DM	2.6667	(2.6826)

German takeover would create one of world's biggest steelmakers

Krupp in hostile offer for Thyssen

By Sarah Althaus and Andrew Fisher in Frankfurt and Ralph Atkins in Düsseldorf

Two of Germany's biggest and best-known industrial companies locked horns yesterday when Krupp Hoesch, the steel and engineering group, announced a hostile takeover offer for its rival Thyssen.

If successful, the offer, valuing Thyssen at DM13.6bn, ($8bn) would create one of the world's biggest steelmakers with sales of more than DM63bn, placing it ahead of the European market leaders Usinor-Sacilor of France and British Steel.

But Thyssen, about 80 per cent of whose shares are widely held, is expected to fight vigorously to preserve its independence.

Although hostile bids are extremely rare in Germany, Thyssen wasted no time in adopting aggressive language. It lashed out at Krupp's "wild west" tactics. It said it had an array of "weapons" to defend itself, including political defences, suggesting it would look to the Social Democratic Party-controlled government of North Rhine-Westphalia for support. It urged shareholders to take no action at this stage.

Thyssen can also count on strong emotional support. Mr Gerhard Cromme, chairman of Krupp and the driving force behind the bid, was protected by riot shields as he faced Thyssen workers at the Krupp headquarters yesterday to deny that his plans would throw tens of thousands out of work at a time of high unemployment.

Both companies, based in the industrial Ruhr area, have played leading roles in the country's economic and political history this century. They also helped arm the country in two world wars.

But they have faced hard times in the 1990s, as costs for German companies have made it difficult for them to maintain their global competitive positions.

Analysts welcomed Krupp's proposed takeover – a bold move by a company whose market capitalisation, at about DM5.6bn, is roughly half that of Thyssen – saying it could spark further consolidation in Europe's overcrowded steel industry. They also pointed to the potential for considerable synergies.

Krupp Hoesch is no stranger to hostile takeovers, having swallowed its Ruhr-based rival Hoesch in a surprise swoop in 1991.

It said its cash offer of DM435 a share represented more than a 25 per cent premium to Thyssen's closing price on Monday and a 60 per cent premium on its price at tha end of last year.

Unlike many German mergers, which are worked out behind closed doors, Krupp's offer is open to all Thyssen shareholders.

The bid, still to be presented in full, has been drawn up under Germany's voluntary takeover code, agreed in 1995. Both companies have accepted the code, which lays down that any company acquiring more than 50 per cent of a target company must make an offer for the remaining shares within 18 months.

However, Krupp Hoesch, which bad net debt of DM2.9bn last year, gave no details of bow it would finance the deal.

The lion's share of the transaction, however, would have to be financed through debt. Deutsche Morgan Grenfell, Dresdner Kleinwort Benson and Goldman Sachs are advising Krupp Hoesch, while other banks will also be involved in the financing. Thyssen is being advised by Credit Suisse First Boston, Morgan Stanley, J.P. Morgan and SC Warburg.

The German Cartel Office said it would be referring the bid to European competitioo authorities because of the size of the proposed takeover.

Observer, Page 13

Gerhard Cromme behind riot shields before facing angry Krupp workers yesterday Picture: AP

Senators question second Clinton nominee

By Leyla Boulton in Washington

US senators yesterday began bearings on a second controversial nominee for the Clinton administratioo less than 24 bours after Mr Anthony Lake withdrew his candidacy to lead the Ceotral Intelligence Ageocy.

Ms Alexis Herman's nomination as labour secretary has been a long-running cabinet appointment headache for President Clinton, as have his attempts to find a CIA chief.

Opponents have questioned the involvement of Ms Herman, a 49-year-old black former civil rigbts activist, in Democratic party political fund-raising efforts and alleged improper business dealings.

Mr Lake announced on Monday be was pulling out as Mr Clinton's nominee to bead the CIA in disgust at a nomination process which he described as a "political circus".

After three months of congressional vetting – on topics ranging from his performance as National Security Council adviser to his personal share holdings – Mr Lake said he had "lost patieoce" with "endless delays" which he feared would hurt the CIA.

But political observers said his move meant that Ms Herman, whose previous White House job was to help secure black support for Mr Clintoo's re-electioo, was more likely to secure the Labor post. "Having got some blood [with Lake], the Republicans are unlikely to look for another victim," said one analyst.

Mr Lake, who had faced fresh questions on what he knew about the latest twists of the campaign finance debacle, called for an end to the political partisanship.

"I hope that, sooner rather than later, people of all political views beyond our city limits will demand that Washington give priority to policy over partisanship, to governing over 'gotcha'.

"It is time that senior officials have more time to coo-

Continued on Page 14

BT and Telefónica plan strategic link-up

By Tom Burns in Madrid and Alan Cane in London

British Telecommunications, the dominant UK operator, is planning a strategic alliance with Telefónica of Spain in a move which will fundamentally reshapa the global telecoms market.

It is negotiating to take a staka in Telefónica Internacional (Tisa), Telefónica's international operation, which has holdings in a number of South Amarican operators including Argentina, Chile and Peru.

The move would be hugely damaging to Unisource, an alliance of smaller European operators including KPN of The Netherlands, Telia of Sweden and Swiss Talecoms. It could lead to Telefónica, which took a 25 per cent stake in the alliance last year, withdrawing since belonging to two competing international alliances would not be viable.

It would also be a blow to AT&T, the largest US operator, which has chosen Unisource as the vehicle for its European ambitions.

A stake in Tisa would give BT and its US partner MCI a powerful foothold in the fast developing Sooth American market where neither is at present represented. The two partners, which in the course of a $20bn merger, are already atrong in Europe and in North America, and are developing partnerships in the Asia Pacific region.

Analysts believa BT and Telefónica – which have been competitors in Spain np to now – are close to an agreement with BT's chief Spanish partner, the major bank Banco Santander, which has begun to invest in Telefónica in a swift switch of strategy.

Banco Santander aided BT's entry into the Spanish telecoms market in 1993 when the two companies formed a data tranmsission joint venture, BT Telecommicaciones.

It subsequently joined forces with BT in a consortium that acquired Airtel, a mobile telephone operator. These ventures, which marked the beginning of telecoms deregulation in Spain, forced Santander to dispose of its stake in Telefónica.

Yesterday, however, Mr Emilio Botín, Santander's chairman, said the bank now controlled some 2 per cent of Telefónica, an investment worth some Pta 60bn ($419m), and that he was prepared to continue buying shares in the operator.

He also said he was not prepared to invest in the planned launch of a second rival operator – Retevision – to Telefónica. Retevision is a television signals transmissioo company that holds a licence to operate a telecoms network.

Neither BT nor Telefonica would comment on what both described as apeculation yesterday.

Monopoly may end, Page 15

GEC-Alsthom partners study future of venture

By David Owen in Paris

Alcatel Alsthom of France and Britain's General Electric Company have embarked on a "fundamental reflection" over the future of GEC-Alsthom, their 50:50 power engineering and transport equipment joint venture.

Mr Serge Tchuruk, Alcatel chairman, made the disclosure at a news conference in Paris yesterday.

His comments were interpreted to suggest that a wide variety of options, ranging from increased ties between the two companies to an out-and-out break-up of GEC-Alsthom, one of the biggest industrial alliances in Europe, were under consideration.

The venture was formed in 1989 and had sales of approximately £7.5bn in 1996.

The review coincides with a fundamental rethink of GEC's atrategy launched by Mr George Simpson. He replaced Lord Weinstock – engineer of the 1989 merger of the two company's electrical engineering interests – as the managing director of GEC six months ago.

There have been suggestions that both groups would benefit from a deal handing GEC-Alsthom's power generation and transmission divisions to Alcatel, leaving GEC to take charge of what would be a railway equipment, shipbuilding and industrial business.

GEC and Alcatel have also been engaged in months of discussions with the French government over a possible takeover by GEC-Alsthom of Framatome, the French state-controlled nuclear plant and fuel manufacturer.

The talks have become bogged down over the French government's insistence that French interests continue to control the merged entity.

The disclosure came as the talecoms and engineering group'a shares rose to a 12-month high on the Paris stock market after it confirmed it had returned to the black last year following the largest loss in France's corporate history in 1995.

The shares climbed an impressive FFr54, or 8.8 per cent, in a falling market to FFr667, still well below the peak of more than FFr900 at the start of 1994.

Analysts indicated they were revising up their earnings forecasts by the order of 10 per cent on the strength of yesterday's bullish results presentation in Paris.

Overall, the company reported net income of FFr2.7bn, slightly above expectations, compared with a loss of FFr25.6bn in 1995.

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Camdessus raises euro currency fears

By Robert Chote, Economics Editor, in Washington

Misalignments among the exchange rates of the world's leading currencies may become more frequent and more damaging following the introduction of a single European currency, the head of the International Monetary Fund predicted yesterday.

Mr Michel Camdessus, IMF managing director, said the global monetary watchdog was concerned at potential misalignments, in which exchange rate movements are not justified by fundamental economic conditions. He said he hoped that the Fund would be called upon to promote "consultation and collaboration" if problems arose.

Speaking at a symposium on European economic and monetary union in Washington, Mr Camdessus also called on European governments to continue cutting their borrowing to meet the targets in the Maastricht treaty, even if slow economic growth was pushing borrowing up automatically. Interest rates could be cut to maintain economic momentum, he added.

"If slippage in meeting fiscal goals increased market concern that stage three [of Emu] would be postponed, the consequences could well be more damaging for economic growth than additional fiscal restraint," he said.

Mr Camdessus argued that adopting the single currency was now so important to European integration that he it was not worth courting the uncertainties that would arise in delaying its start date from January 1, 1999.

"In short, it is time to put at rest, once and for all, any lingering doubt about the future of Emu and to finish the job that is, in any case, so close to completion. Finishing the job means countries must concentrate on fulfilling their Maastricht commitments, especially those concerning deficit reduction."

Mr Camdessus said it was important that tight control of government borrowing be maintained beyond the start date of the single currency. The pace of adjustment required under the so-called growth and stability pact was consistent with that required by European governments for their own economic well-being, especially given the large unfunded liabilities of public pension schemes.

It was also essential to establish a "clear road map" so that countries missing out on the first wave of the single currency could join as soon as possible thereafter. Otherwise there might be adverse reactions in the financial markets and a loss of political will to press ahead with necessary economic adjustments.

Mr Philippe Maystadt, Belgium's finance minister and chairman of the IMF's team in ministerial committee, called on the IMF to subject the performance of the future European central bank to regular scrutiny.

No more President Nice-Guy

Chrystia Freeland and Bruce Clark on the Clinton-Yeltsin summit

For nearly a decade, US-Russia summit meetings have been convivial occasions, at which cold war arsenals are boldly dismantled and pledges to support Russian political and economic reforms ritually ottered.

But the atmosphere at the two-day meeting between President Bill Clinton and President Boris Yeltsin which starts in Helsinki tomorrow threatens to be different.

Nato's planned eastward expansion, the issue expected to dominate the summit agenda, has again deeply divided the two former adversaries.

Mr Yeltsin has predicted that the enlargement project, which the US has strongly supported and Moscow intensely dislikes, could create "the toughest" US-Russia summit since he became president in 1991.

It is still unclear, both in Moscow and in Washington, whether these negotiations will bring a compromise. But as Mr Yeltsin retired to his dacha yesterday to prepare, his advisers outlined two possible outcomes.

Summit bound: Clinton's accident has slightly delayed his encounter with Yeltsin Reuter

The first, according to Mr Igor Malashenko, the president of NTV – the country's only private television channel – and an influential voice in the Kremlin, is that the two leaders fail to reach a deal on Nato.

"I think there is a high possibility that they will agree to disagree," Mr Malashenko said. "But it will not be a new confrontation, it will be largely about symbolic politics."

Mr Yeltsin, who in the past has taken open delight in building a warm personal relationship with "my friend Bill", seems ready for this sort of official coolness.

At a meeting with Russia's leading newspaper editors in the Kremlin last week, Mr Yeltsin warned that "we might very, very seriously disagree". He added, however, that he realised there was no chance Russia could sway the US in its resolve to push ahead with Nato expansion.

Leaving Helsinki with a formal disagreement over Nato could be embarrassing for the White House, which is eager to demonstrate to its more reluctant western European partners that the military alliance can grow without alienating Russia.

But for the Kremlin, a public spat with the US could be sound domestic politics. Taking a tough line over Nato might insulate Mr Yeltsin from the attacks of Russia's increasingly influential nationalist lobby.

Boosting his patriotic credentials is particularly important for the Kremlin as it prepares to embark upon a series of unpopular economic reforms.

Moscow strategists are also holding out the possibility of a second possible outcome of the summit which, in their view, would represent a breakthrough in US-Russia relations.

Their hope is that the Kremlin and the White House could reach a compromise, in which Russia would gracefully surrender to the inevitability of Nato expansion in exchange for promises of economic and political integration with the west.

"We believe that the real issue is economic integration and that is the agenda for the future," Mr Sergei Karaganov, a presidential adviser. He expressed the hope that the summit would speed Russia's full membership of institutions such as the World Trade Organisation, the Organisation for Economic Co-operation and Development and the Group of Seven industrial nations.

But this type of deal, which has also been aired by senior US officials, could be jeopardised by Mr Yeltsin's reluctance to appear to have been bought off.

Last week, the Russian leader insisted that economic issues be pushed to the bottom of the summit agenda, telling his aides that the Kremlin could not seem to have been "bribed" by the US.

To impress an impoverished Russian electorate that has grown disillusioned with western promises of significant economic aid, Mr Yeltsin has said the Kremlin's grudging consent to Nato expansion will depend on two tough conditions.

He has demanded that the west acknowledge Russia's influence in the ex-Soviet republics, by promising not to admit the Baltic states or Ukraine to Nato without the agreement of their Muscovite big brother.

Although neither the Baltic states nor Ukraine are expected to be included in the first wave of Nato enlargement, to be announced next July, the US is very unlikely to give open-ended undertakings of the kind Moscow wants.

Kremlin aides say the president realises his friend Bill is unlikely to concede these points. But by taking strident positions, Mr Yeltsin hopes to show ordinary Russians, and the west, that the bear has not forgotten how to growl.

The tough stance would also represent something of a personal revival for Mr Yeltsin. After eight months of illness and surgery, the Russian leader is determined to show the world that he is still in charge. He has quipped, only half in jest, that he will be in better shape than Mr Clinton who is recovering from a knee operation.

US officials, who have worked hard in recent months to improve bilateral economic co-operation with Russia in sectors ranging from space to semiconductors, are privately unruffled at the prospect of verbal fireworks in Helsinki.

Negotiations on a Russia-Nato charter, providing for regular consultations between Moscow and its former foes, have made good progress behind the scenes.

Any rhetorical outbursts from Mr Yeltsin will, at least initially, be viewed in Washington as a smokescreen aimed at domestic hardliners that will help to cover his tracks as he advances towards a broad Russian-western accord.

Such a compromise could be sealed at a special Russia-Nato summit either in the Netherlands, where Mr Clinton is due to meet European Union leaders in May, or at the June summit of the G7 in Denver, Colorado.

But even the most optimistic US officials acknowledge that many a slip could occur between Helsinki and the desired happy ending. And in US-Russian relations, always a game of smoke of mirrors, it is never quite clear who is humouring whom.

Reformer returns, Page 18

Euro-zone watchdog to lose its teeth

By Lionel Barber in Brussels

France has won a hollow victory in its campaign to create a "stability council" to co-ordinate economic policy among countries inside the planned single currency zone.

Ministers accepted the French idea of a new informal grouping reluctantly at a meeting in Brussels on Monday. But they stripped the proposed institution of any real power and made clear it could not become a political counterweight to the future European Central Bank.

Mr Gerrit Zalm, Dutch finance minister, who chaired the discussion on the stability council on Monday, said the new informal grouping would not have responsibility for setting currency policy. This would remain in the hands of all 15 finance ministers and the European Central Bank.

Mr Jean Arthuis, French finance minister, and Mr Theo Waigel, his German counterpart, had agreed recently in Lyons to support an informal stability council to serve as a forum for discussing economic policies among euro-zone countries.

But several smaller countries likely to be in the first wave of Emu – notably Ireland and the Netherlands – expressed reservations. Britain, Denmark and Sweden, which may remain initially outside Emu for political reasons, are also opposed.

Mr Zalm said: "There is a consensus to say that something of this kind will be set up. There is no consensus on the need to set it up."

Mr Ruairi Quinn, Irish finance minister, pointed out that the new grouping could lead to a big power condominium which excluded the European Commission, traditional protector of the interests of smaller countries.

Almost all the provisions of the so-called stability and growth pact for enforcing budgetary discipline in the euro-zone are discussed at council meetings of the 15 EU finance ministers. The smaller countries fear that creating a stability council with real teeth would lead to a "club within a club", undermining the notion that all 15 states need to be involved in EU economic decision-making, including euro-zone matters.

A senior diplomat said ministers had provided a "fig-leaf" for the French government which implied political influence over the future European Central Bank without delivering real power. "It also allows the French to tell their public that the new central bank in Frankfurt is not the Bundesbank in disguise."

Another said Germany had agreed to the stability council, but at a price. The Bonn government had now won French support for delaying a decision on which countries meet the Emu entry criteria until late April 1998, after the French parliamentary elections and on the basis of actual 1997 economic data.

Setback for Russia's banking barons

By John Thornhill and Chrystia Freeland in Moscow

The sacking this week of Mr Vladimir Potanin, Russia's first deputy prime minister, has given rise to suggestions that the government is trying to disentangle itself from the powerful financial barons who backed President Boris Yeltsin's re-election campaign.

Mr Potanin will now return to his former post as head of Oneximbank. He was among the most prominent of a group of seven bankers who helped finance Mr Yeltsin's campaign last year and benefited conspicuously from their ties with the Kremlin.

The group, which worked closely with Mr Anatoly Chubais as manager of the poll campaign and then as head of the presidential administration, has since splintered but still exercises control over some of Russia's biggest indnstrial assets and media concerns.

Mr Boris Berezovsky, the former head of the Logovaz car dealing group and one of the leading members of the group, remains as deputy head of the security council.

The apparent fusion of political and financial power led to opposition charges that a dangerous new oligarchy was emerging in Russia.

Since returning to government as a first deputy prime minister this month, Mr Chubais has sought to highlight his independence. He has cancelled tax privileges granted to Norilsk Nickel and Yukos, two of Russia's biggest enterprises controlled by group members Oneximbank and Menatep.

The appointment of Mr Boris Nemtsov, reformist governor of Nizhny Novgorod, as a first depnty prime minister could also lead to further separation of government and corporate power. Mr Nemtsov has the task of regulating more aggressively Russia's "natural monopolies", such as gas, electricity, and railways.

Mr Chubais's aides say the government will take measures to prevent the further concentration of industrial and financial power in the conntry and encourage greater competition.

"I do not think the current level of concentration [of financial and industrial power] is too high at the moment," said Mr Maxim Boyko, deputy head of the presidential administration and a Chubais ally. "There is competition. But I would be worried if Russia moves beyond this level of concentration."

Mr Sergei Karaganov, a presidential adviser, predicted yesterday there could be a fierce struggle between the government and some of the big financial and industrial groups.

"This group of six or seven banks has split up but they are interested in the unity of their class interests. They will fight against Chubais because they understand he is fighting thair interests," he said. "It is possible this opposition could destroy Chubais."

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R

Jobs top Europeans' list of concerns

By Michael Peel in London

Job insecurity and fears about unemployment are rife across Europe, according to a survey by the Mori polling organisation, published yesterday. Concern is greatest in those countries prevented from tackling high levels of unemployment because of their efforts to meet the criteria for EU monetary union.

Mori interviewed a total of 13,000 people late last year in 13 European countries, 12 of them members of the European Union.

Eighty-five per cent of Finns cited unemployment as one of the two or three most important problems facing their country. The figure for France and Sweden was 78 per cent; in Germany it was 73 per cent; and in Spain 72 per cent. The European average was 58.8 per cent.

All these countries have unemployment rates topping 8.5 per cent, and rates in some cases are at record levels. German unemployment is the highest since 1933.

Economic issues such as prices and inflation were a significant worry for 29.8 per cent of those interviewed.

Swedes were most worried about the economic situation in their own country – 53 per cent said it was a principal concern. Finland and Germany again featured prominently with 47 per cent and 46 per cent respectively.

Those concerned about the possible effects of Emu on employment levels and economic stability did not necessarily feel political and monetary union itself was a crucial subject. It was mentioned by just 7.5 per cent of respondents.

Eight per cent of Germans and just 1 per cent of the French mentioned it. Britain and Austria, two of the countries least worried about unemployment, found Emu the most problematic, with 14 and 20 per cent respectively.

A relatively high 9.4 per cent of Europeans thought corruption to be one of the issoes of the moment. In Italy, this view was held by 21 per cent of people, and in Belgium 38 per cent.

Terrorism was identified as a worry by 31 per cent of Spaniards against an EU average of 4.5 per cent. The figures of 7 per cent for Ireland and 1 per cent for Britain perhaps reflected residual hopes for the Irish peace process.

"Mad cow" disease was mentioned by 3.4 per cent of respondents. The figure rose to 7 per cent in Germany and 13 per cent in Ireland, but a mere 2 per cent of Britons saw it as an important issue.

EUROPEAN NEWS DIGEST

Albania asks EU for help

Albania's new government of national unity yesterday made a plea to the European Union for urgent help, as thousands of people tried to cross the Adriatic to Italy in anything that would float or headed to the Greek border.

The finance minister, Mr Arben Malaj, said he told a visiting EU delegation that Albania faced a serious food crisis after widespread looting of government stocks last week. Few supplies are reaching Tirana and deliveries from Greece and Macedonia have been mostly cut off.

Mr Malaj said the delegation had listed several conditions for providing financial aid, including re-establishing links with the International Monetary Fund and application of strict financial discipline following the collapse of pyramid savings schemes. The International Committee of the Red Cross appealed to donors for $10.3m to send food and medicine to Albania.

Some 12,000 refugees have fled to Italy and Greece so far. Thousands more are besieging the ports of Durres and Vlore where criminal gangs are organising places on leaky boats at exorbitant prices. The Italian cabinet is to discuss the exodus today. *Guy Dinmore, Tirana*

Polite hypocrisy, Page 12

Balkan fund ready for launch

The first private investment fund for the Balkan region was offered to institutional investors yesterday. Mr James Mellon, managing director of the Regent Pacific Group, a Hong Kong-based investment fund manager, told a London conference that "huge mis-pricing in debt and equity assets in the region offered the potential to grow assets 3-10 times over the next five years".

Regent believes the Balkan region could be the next target for substantial foreign investment in under-priced financial and physical assets now that Romania and Bulgaria, the region's biggest countries, are embarking on programmes of rapid privatisation and market reforms.

The proposed $100m, three-year closed-end Balkan fund will be launched on April 2. It will invest in bonds and equities and concentrate initially on Bulgaria and Romania and on Croatia and Slovenia. Slovenia is the richest, with an average per capita income, at current exchange rates, of $9,300 a year; average pay in Bulgaria is around $30 a month. *Anthony Robinson, London*

Swedish pay guidelines agreed

Employers and trade unions representing 800,000 Swedish manufacturing workers yesterday agreed a new pay bargaining blueprint. The Association of Swedish Engineering Industries and the eight trade unions said increasing international competition, low inflation and the impact of financial deregulation had made it necessary to bolster competitiveness. They agreed not to impose a wage ceiling but stressed pay would reflect prevailing economic conditions. Price stability made it possible to award lower nominal wage increases, they said.

An industrial committee is to be charged with promoting labour market stability and mediating in conflicts. Negotiations on collective wage agreements are to start well before the expiry of existing accords in an attempt to limit the risk of industrial disputes. A new independent mediation board will be able to impose a 14-day cooling-off period in the event of threatened strikes. *Greg McIvor, Stockholm*

French VAT plan ruled illegal

Plans by France to lower value-added tax on multimedia services are illegal under EU rules, a European Commission spokeswoman said yesterday. She said that Mr Mario Monti, the taxation commissioner, had told the French that the plan could not be allowed and that France had little chance of convincing its EU partners to change the existing tax rules.

President Jacques Chirac said earlier this month that he would ask his prime minister, Mr Alain Juppé, to reduce VAT to 5.6 per cent on multimedia services and products such as CD-Roms. France's standard VAT rate is 20.6 per cent.

EU legislation on VAT includes national lists of products or services which can benefit from a reduced VAT rate. Multimedia is not one of them. *Reuter, Brussels*

EU makes the going difficult

People moving from one EU country to another face a swathe of obstacles going far beyond language and cultural differences, says a special EU advisory group. Petty local bureaucracy, discriminatory tax treatment, problems with relocating family members, and difficulties getting professional qualifications recognised have all contributed to a lack of mobility.

"We do not have a high level of mobility in the Union," said Mr Padraig Flynn, the social affairs commissioner, who promised to bring forward new proposals before the summer to make occupational pensions portable within the EU.

The report, makes 80 recommendations to improve mobility. They include a new type of European residence card for people who are neither tourists nor seeking to establish themselves permanently, such as students, volunteers and trainees.

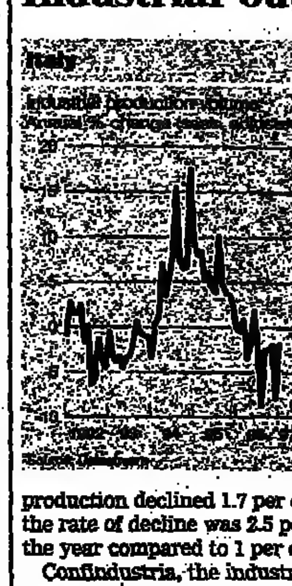
The report also says that greater effort should be made to spread information about jobs around the Union and recommends opening up the public sector to citizens from other EU member states. *Emma Tucker, Brussels*

FT journalist wins prize

Andrew Jack, FT Paris correspondent, has been awarded the 1997 Grand Prix by the Association des Anciens Elèves du Centre des Hautes Etudes d'Assurances, for his writing on the French insurance industry.

ECONOMIC WATCH

Industrial output declines



Italy's industrial production fell by 6.4 per cent in January (1.8 per cent seasonally adjusted) compared with the same period last year, underlining continuing depressed domestic demand. Average daily production was down 2.7 per cent on January 1996, according to Istat, the state statistics institute. Among the two sectors worst affected were office machinery and transport equipment, both recording drops of more than 10 per cent. Last year, industrial production declined 1.7 per cent overall against 1995. But the rate of decline was 2.5 per cent in the second half of the year compared to 1 per cent in the first half.

Confindustria, the industrialists' confederation, warned yesterday that February and March could see production declining still further. Thereafter, however, the trend in orders and the need to rebuild stocks suggested a modest recovery would set in. *Robert Graham, Rome*

■ German retail sales rose a real and seasonally adjusted 2.7 per cent in January from December but were unchanged from a year earlier, provisional data show.

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Free speech for adults versus protection for children

'Cyberporn' case divides US

By Louise Kehoe in San Francisco

The future of the global Internet may be at stake in a controversial "cyberporn" case to be argued before the US Supreme Court today, according to a broad coalition of free-speech advocates, librarians, publishers, software and online industry groups.

The case involves a challenge to the constitutionality of the Communications Decency Act (CDA) passed by the US Congress last year, which aims to protect children from Internet pornography by making it illegal to distribute "indecent" materials online.

Last year, a special panel of three federal judges in Philadelphia blocked enforcement of the CDA, ruling unanimously that the act would infringe the free-speech rights of adult users of the Internet.

However, the US Justice Department is now appealing against that ruling to the Supreme Court. Today the justices will hear oral arguments from both sides. They are expected to issue a ruling in June.

The outcome of the case could have broad implications for all users of the Internet. If it is upheld, the CDA would apply only to US Internet users and publishers. Yet with more than half of Web sites and discussion groups originating in the US, the restrictions would be felt worldwide.

The act has broad support in Congress as well as from religious and "family" interest groups who contend it provides essential protection for children. "Many children will suffer grave harm from sexually-explicit speech on the Internet unless its distribution or display to children is restricted by law," they argue in a brief filed with the court.

Outcome of case may have important implications for Internet

While recognising the need to prevent pornography being distributed to children, opponents argue that the act would also prevent open and lawful exchanges among adults because it is impossible reliably to determine the age of an Internet user.

"There are less restrictive and more effective ways to protect children," said Mr Jerry Berman, of the Center for Democracy and Technology, and a vocal opponent of the act. Parents can use filtering software programs such as Net Nanny and Surf Watch to block access to sexually-explicit Web sites, he noted.

The Citizens Internet Empowerment Coalition, an umbrella group of CDA opponents, also maintains that the term "indecent" is too broad and vague to be sensibly enforced.

It might, for example, be applied to the display of classic works of art, as well as the distribution of socially valuable information such as medical studies on sexual issues.

The biggest challenge for opponents of the CDA may be in adequately explaining the nature and workings of the Internet to the judges. In Philadelphia, lawyers took the unprecedented step of "wiring" the courtroom to enable the judges to see first hand how World Wide Web sites, Internet newsgroups and electronic mail can be used. There will be no such opportunity with the Supreme Court justices.

Even if the CDA is struck down by the Supreme Court, that may not be the end of the issue. CDA supporters are already preparing similar legislation that they plan to introduce in Congress.

President Bill Clinton's administration appears to be divided on the issue. Even as the Justice Department argues in favour of the CDA, an inter-agency task force is preparing a policy statement that would express strong opposition to censorship of the Internet.

Ira Magaziner: advising Clinton to veto act on decency

Mr Ira Magaziner, senior adviser to President Clinton on policy development and head of the task force, told a computer industry gathering last week he would advise the president to veto any derivative of the CDA.

The draft policy recommends a rating system, similar to that used in the film industry, for Internet Web sites, he said.

AMERICAN NEWS DIGEST

US housing starts up 12%

Builders broke ground on new homes and apartments at the fastest rate for nearly three years during February, the US Commerce Department said yesterday, bouncing back from severe weather in January.

The sharp increase could give the Federal Reserve more ammunition with which to justify an increase in interest rates to head off a rise in inflation resulting from an overheating economy.

Total starts shot up 12.2 per cent to a seasonally adjusted annual rate of 1.53m in February – the strongest building pace since 1.56m in March 1994 – after a revised 0.7 per cent gain in January. "That was one heck of an increase," an analyst said. "But my guess is the Fed would like the luxury of two more months of employment data to find support for a rate hike." Analysts expected a rebound from December's 9 per cent drop caused by stormy weather in the West and January's modest 0.7 per cent gain. But last month's numbers were ebout double expectations. *Reuter and AP, Washington*

Colombia may win US aid

Three weeks after decertifying Colombia for not fully co-operating in the drug war, the Clinton administration is consulting with Congress on a package of benefits including $30m in military and police aid, say US officials. They say the funds will be used for training of Colombian military personnel and for spare parts for equipment used to combat narcotics traffickers. No lethal equipment will be sent. Last month the US renewed a 1996 decision to label Colombia a narcotics pariah state. The move comes just days after Mr Guillermo Alberto Gonzales, defence minister, quit in a drug scandal. *Reuter, Bogota*

Texaco faces fresh suit

A new class action suit has been filed against Texaco, on behalf of minorities who applied to join but were not hired by the US oil company.

Texaco has already agreed to pay $176m to settle a discrimination suit brought by minorities within the company, after tapes of high-ranking executives talking disparagingly about black employees were released last October. The new suit was filed in the US district court for the southern district of New York. Texaco said the company had not yet seen the new suit so could not comment. Separately, a judge in White Plains, New York, reserved his decision on the payment of the original settlement, but no objections to the payment were raised, according to people familiar with the case. *Tracy Corrigan, New York*

US airline strike hope

American Airlines, the US carrier facing the threat of an all-out strike by its pilots, yesterday said the company and the pilots' union were "hopeful" they would reach a tentative settlement by the end of the week. The plan is expected to be put to the union's board of directors in Washington on Friday. The long-running dispute is over pay and who should fly a new generation of regional jets that are replacing propellor-driven aircraft on routes flown by American Airlines' commuter subsidiary, American Eagle. Last month the pilots went out on strike, but President Clinton ordered them back to work after less than half-an-hour and appointed an emergency board to mediate. *Richard Tomkins, New York*

Caracas wins backing for pensions reform

By Stephen Fidler, Latin America Editor, in Barcelona

Venezuela's finance minister said yesterday the government had secured the backing of labour leaders for a Chilean-style reform of the country's pension system.

The country is the latest in a growing number of Latin American countries committed to change mostly bankrupt state pensions systems for private sector schemes in the style of that introduced in Chile in 1981.

Peru, Colombia, Argentina and Uruguay have already introduced such schemes, while Mexico's is due to begin at mid-year.

Mr Luis Matos Azócar, the Venezuelan minister, said the existing pension "system is supposed to be a fund for the future, but it does not have any future and it doesn't have any funds."

The government has also secured agreement with trade union and business leaders to make labour legislation more flexible and to cut labour costs.

Mr Guillermo Ortiz, the Mexican minister of finance, said the investment rules for the new Mexican pension funds would be published in April.

He said they would initially limit investments to the Mexican market and encourage investment in debt instruments indexed to inflation "that will give workers a guaranteed rate of return."

Equity investments would not be permitted at the outset, but some investment should be permitted "after a year or two."

He said the new system would give workers "a decent retirement" but also "for the first time in Mexico we'll have a long term capital market."

Mexican officials said this week they intended to extend the maximum maturity of Cetes, short-term government treasury certificates, from one year to two, and extend that of their index-linked Udibonos from three to five years, and perhaps to 10 years before the end of 1997.

The deal between the Venezuela government, industry and trade unions earlier this week sharply cuts the costs to employers of the country's job-leavers' bonus scheme, as well as cutting redundancy costs and benefits related to unfair dismissal.

Some companies had been unable to afford more than minimal provisions for severance payments. Industry welcomed the agreement as a breakthrough for investment in Venezuela.

Arrest widens drugs scandal in Mexico

By Daniel Dombey in Mexico City

A second Mexican general has been arrested on narcotics charges, at a time when the country is already embroiled in a widening drugs scandal.

General Alfredo Navarro, an officer serving in the western state of Jalisco, was arrested this week after allegedly acting as an intermediary for the Arellano Félix brothers, the leaders of one of the country's most notorious drug cartels.

According to the government, General Navarro offered an important justice official in the border city of Tijuana $1m a month to allow the free flow of drugs through the area. Most of the cocaine entering the US travels through Mexico.

The alternative to accepting the bribe, General Navarro allegedly told his government colleague, was to be killed. Some eight high-ranking Tijuana-based prosecutors have been murdered over the last year.

In a brief statement in the maximum security jail to which he was transferred on Monday, General Nevarro said he feared death unless he be co-operated with the cartel.

General Navarro's arrest comes at an especially sensitive time for the country. Not only are memories still fresh of the arrest last month of General Jesús Gutiérrez Rebollo, the country's top anti-drugs official, but the US Senate is expected to vote this week on Mexico's possible decertification as a partner in the "drugs war".

President Ernesto Zedillo has given the military a greater role in Mexico's judicial issues, particularly those related to drugs, since the Mexican police are generally thought dispirited, underpaid and open to corruption. The recent revelations may prove a setback for that policy.

● Mexico's ruling Institutional Revolutionary party (PRI) suffered a further reverse this week, as preliminary results showed big losses in the state of Morelos, just to the south of Mexico City.

The PRI lost all of the big municipalities in the region, with the state capital, Cuernavaca, going to the centre-right National Action party (PAN), and the remeinder voting for the left-wing Party of the Democratic Revolution (PRD). The PRI also lost its control of the state Assembly.

Until a few years ago, losses of such a scale were inconceivable for the PRI, which has been in power for 67 years.

Quito telecoms sell-off target

By Justine Newsome in Quito

Ecuador aims to sell 35 per cent of its state telecommunications company to private operators by the end of April, the head of the state modernisation council, Conam, said yesterday.

Mr Rodrigo Paz said investors would see the repeatedly postponed sale of Emetel, which has been valued at up to $3.5bn, as symbolic of Ecuador's commitment to push ahead with economic modernisation. "The sale is a turning point for what happens in the country," he added.

He outlined the only outstanding issues before the sale as appointments to regulatory bodies; revision of the terms of reference for the sale and operating rules, including review of the tariff framework introduced by the previous Bucaram government; and division of Emetel into two regional companies, with 35 per cent of each to be sold to different operators.

However, it may not be possible to achieve the sale by the end of April. Widespread accusations of corruption have been levelled against the Bucaram government, deposed on February 6. These include claims that cash was siphoned out of Emetel through unauthorised contracts with hefty advanced payments to suppliers.

One analyst said: "Operators interested in the sale have not been given a formal explanation of what happened in the last six months. The process needs to be reviewed with a full audit and asset valuation. This could mean a delay of at least another two months."

The successful bidders for 35 per cent of Emetel will have 15-year operating concessions, with exclusivity for the first five, and full administrative control.

GTE and MCI of the US, Italy's Stet, Korea Telecom and Telefónica of Spain are potential bidders. Up to 10 per cent may be sold to the workforce, who cannot sell their shares on for five years. The proceeds of the sale will be held in e solidarity fund, and its income can be spent only on social programmes.

CONTRACTS & TENDERS

Bonn boost for building industry

By Frederick Stüdemann in Berlin

The German cabinet yesterday approved proposals for a DM25bn ($14.7bn) public and private sector investment programme to stimulate growth and create jobs, especially in the country's construction industry.

The proposals envisage DM20.5bn to be disbursed in the form of reduced interest loans by the Kreditanstalt für Wiederaufbau (KfW) and the Deutsche Ausgleichsbank (DtA), two state-owned banks, to companies, local councils and individuals. Ten specific spending areas have been targeted, including local council infrastructure programmes, modernisation of housing stock in east Germany and upgrading of heating systems to reduce energy costs.

Small and medium-sized start-up businesses are to receive additional support through en increase in lending programmes aimed at bolstering equity levels and providing employee training.

Mr Theo Waigel, finance minister, said that together with government proposals for tax reform, the loans package was a decisive move towards improving investment conditions in Germany. The federal bndget would not be affected by the measures, as money for the loans would come from funds raised on capital markets by the KfW and DtA.

In addition to the money channelled through the state-owned banks, the government hopes to mobilise a further DM5bn in private sector investment in infrastructure programmes, such as the financing, building and operating of roads and bridges. The necessary steps needed to be taken to make this possible were now being examined, the finance ministry said.

Mr Günter Rexrodt, economics minister, said yesterday's cabinet decision would significantly improve the level of private eector involvement in public sector projects, in which Germany still trails other countries.

The cabinet's approval of the investment proposals comes at a time of rising unemployment in the construction sector and demonstrations by building workers in Berlin. Industry officials predict that the sector will decline by 2.5 per cent this year, and that 70,000 jobs could be lost.

The decline has been particularly noticeable in eastern Germany, where until recently the construction sector was the motor of economic recovery in the region. Bnt because many projects initiated immediately after unification with the west in 1990 have now been completed, building activity in the east has started to decline. In a study published yesterday, the Ifo economics institute forecast that investment in the construction sector in the east would fall from DM117.3bn in 1996 to DM114.6bn in 2000.

Jospin unveils growth policy to aid young jobless

Jospin: blamed government

By David Buchan in Paris

France's opposition Socialists yesterday unveiled "a new growth policy" to pump up demand and reduce youth unemployment as their main economic weapon for next year's parliamentary elections.

Blaming the Gaullist-led government for "breaking the recovery", Mr Lionel Jospin, the Socialist leader, complained that France's 1997 "public deficits – in spite of accounting tricks of unprecedented magnitude – will probably be nearer 3.5 per cent [of national output] than the 3 per cent" needed to qualify for European monetary union (Emu).

While saying he did not favour delaying Emn, Mr Jospin told a press conference that the issue of whether Italy, Spain, Portugal "and Britain, if it wisbes" would be founder-members of the single currency was "crucial". But he singled out Italy to say that he could not conceive of Emn starting without it, after the "exceptional efforts" now being made by the centre-left Prodi government.

The decision on wbo participates in Emu is likely to be mada just after March 1998 elections in France, which the left could win. The Gaullist President Jacques Chirac and the prime minister, Mr Alain Juppé, have recently seen their poll standing improve, but their chances of bolding on to government could be complicated by the rise of the far-right National Front.

Last December the Socialists made a promise to put 700,000 young people into jobs over two years. This was widely regarded as incredible and too expensive. Returning to the attack yesterday, Mr Jospin claimed the French economy was potentially capable of growing at 3 per cent or more from 1998 onwards, and that a Socialist government could put 350,000 young people to work in the public sector at no extra cost, by simply converting FFr64bn ($11bn) worth of welfare charge reductions into direct job subsidies.

The Socialist leader pledged that, if bis party won power next year, it would pass legislation to cut the standard working week from 39 to 35 hours over two to three years. This would be done "without any loss of pay", and would therefore raise hourly wage rates, Mr Jospin said.

Heading the list of new proposals yesterday was a sweeping reform of France's FFr140bn-a-year health insurance charges. Mr Jospin proposed to put more of this burden on higber-income groups by levying health charges on savings and investments as well as salaries, and less on the poorer, who would therefore have more to spend.

Mr Jospin also said his party would halt the privatisation of the Thomson electronics group, if it was still incomplete by the time the Socialists arrived in power. But only in the case of the imminent partial privatisation of France Télécom would a Socialist government actually seek to reverse tbe Jnppé government's action.

Independence for French bank regulators urged

By Andrew Jack in Paris

France's banking regulators should be granted additional powers and be made more independent from the government, a senior Gaullist politician recommended yesterday.

Mr Philippe Auberger, a member of the ruling centre-right RPR party, called for the French treasury to lose its seat on the six-member board of the Banking Commission, and said additional places should be allocated to banking professionals and businessmen.

He argued that in view of the need for "independence" and the declining number of state-owned banks, the head of the Treasury should no longer be present on the board, which also includes the governor of the Bank of France, three senior civil servants and two other qualified individuals.

He also said the board ahould become more involved in closely supervising banks, rather than delegating this role to the secretariat of the commission, mostly comprising officials from the Bank of France.

The proposals, which draw on hearings held last year by a committee on banking supervision of the National Assembly, will add further pressure for a restructuring of the country's system of banking regulation in the wake of a series of huge losses in the sector.

Politicians called for changes to the operations of the Banking Commission as part of a series of reforms after buge losses emerged at the state-owned bank Crédit Lyonnais in 1994.

Critics have argued repeatedly that the Commission failed sufficiently rapidly to spot the problems at the bank, as well as at a number of other troubled institutions including Comptoir des Entrepreneurs and Banque Pallas Stern, which has been placed into liquidation by a French court.

Mr Jean Arthuis, economics and finance minister, recently told the National Assembly finance commission he supported a series of modifications already being put in place for the Banking Commission, including hiring of more inspectors, drawn from a wider range of backgrounds.

Mr Auberger beld back from calling for significant reform to article 52 of the Banking Act, a controversial section allowing the governor of the Bank of France to "invite" sbareholders in a bank to recapitalise it in the case of financial difficulties.

However, he called for a new national system of depositor protection which would cover all the French financial institutions, replacing the different systems which exist for commercial banks, specialist institutions, mutuals and other groups.

New Italy budget needed for Emu

By Robert Graham in Rome

Italy's centre-left government will be obliged to introduce a spring mini-budget, finding up to L16,000bn ($9.4bn), to stake a claim to join the single European currency.

The precise size of the overshoot on the target of bringing the deficit down to L60,000bn should be known later this week, when the treasury publishes the quarterly public accounts. But already, reports are circulating that the current trend in spending and receipts will prodnce a deficit of L74,000bn-L76,000bn, equivalent to almost 3.8 per cent of GDP. This compares with the 3 per cent of GDP target laid down by the Maastricht Treaty.

If this figure is confirmed, Mr Romano Prodi's government will face a tough task in trying to find a politically acceptable package. The difficulty of forging a consensus within the government majority – combined with market nervousness about a delays to European monetary union – has already led to growing pressure on the lira.

Yesterday the lira fell to L1,006 against the D-Mark, despite intervention from the Bank of Italy. This was its loweat level since it rejoined the European Exchange Rate Mechanism late last year at a central band of L990.

Officials have predicted since early January that a mini-budget would be necessary. Receipts have been hit by the continued stagnant state of the economy, still growing year-on-year at no more than 0.8 per cent. On the spending side, there have been unexpectedly high transfers to regional authorities and extra costs in the health system. But even without these burdens, the present 1997 budget is unlikely to have been sufficient to reduce the deficit to 3 per cent of GDP.

Mr Prodi has made himself a hostage to fortune by promising the hardliners in Reconstructed Communism not to cut social spending or introduce new taxes.

The treasury is already imposing a severe squeeze. Mr Carlo Azeglio Ciampi, the treasury minister, last week held up approval of funds to aid employment because there was inadequate cover, even though they had received the endorsement of the party leaders backing the government. This skirmish over jobs has provided a foretaste of the tensions ahead.

Economy set to overheat, Oslo told

By Greg McIvor in Stockholm

The Organisation for Economic Co-operation and Development yesterday called on Norway to tighten fiscal and monetary policy, warning that its oil-rich economy was in danger of overheating.

Norway has been among Europe's most dynamic economies in the past few years as booming revenues from offsbore oil and gas revenues have spurred buoyent gross domestic product growth and yielded a big current account surplus.

The OECD, in its annual survey of the Norwegian economy, predicted that GDP growth – which averaged 4.5 per cent from 1994 to 1996 – would slow to 3 per cent this year and 2.3 per cent in 1998.

But it said unemployment of 4.6 per cent at the end of 1996 was below "equilibrium" level. Companies in several industries were finding it increasingly difficult to hire suitably skilled workers, and upward pressure was likely to be building on wages.

A 4 per cent rise in wages last year easily outstripped a 1.3 per cent rise in domestic prices, resulting in the highest increase in real earnings since the mid-1980s boom, the OECD said.

The report forecast wage inflation would nudge up to 5 per cent this year while consumer prices would increase only by 2 to 3 per cent. "The current macroeconomic policy framework...is coming under strain now that the risk of inflationary tensions is rising," it said.

The OECD praised Norwegian efforts to boost skills levels through investment in training, but said new ways to improve labour supply were needed.

It recommended raising the retirement age and avoiding any reduction in working hours.

Norway's Social Democratic government, alert to the risk of economic overheating, has resisted the temptation to relax spending constraints and bas maintained a tight fiscal grip.

Its 1997 budget envisages a surplus of more than 6 per cent of GDP, with the excess cash channelled into a Petroleum Fund to cover pension liabilities and other investments when offshore revenues slow next century.

However, the OECD said further reductions in spending were needed to restrain the strength of the krone.

North Korean defector flown to Manila

By John Burton in Seoul, Tony Walker in Beijing and Justin Marozzi in Manila

Mr Hwang Jang-yop, the first official to defect from North Korea's secretive inner circle, yesterday took a step closer to reaching South Korea after he left his Chinese sanctuary for the Philippines, ending a tense five-week stand-off in Beijing.

Mr Hwang left for Clark airbase, north of Manila, in a chartered Air China aircraft. In Manila, military officials said Mr Hwang had been taken by helicopter to Baguio, 125 miles north of Manila. Baguio is a leading mountain retreat in the Philippines, and home to a presidential mansion.

The Philippine foreign secretary said his government had given approval for the transfer of Mr Hwang to the Philippines in transit to South Korea.

A terse dispatch from Xinhua, the official Chinese news agency, said the issue had been dealt with according to "international law and practice".

Mr Hwang's convoluted journey appears to be part of a Chinese plan to avoid the defection further harming the already tense relations between the two Koreas.

Beijing is believed to have extracted a promise from Seoul that it will not exploit Mr Hwang's defection to antagonise North Korea, its long-time ally, with his stay in the Philippines to serve as a cooling-off period.

"The Chinese have not done too badly on this," said one western official in Beijing. This is a bit of a face saver for the North Koreans, but it's pretty transparent."

China was embarrassed when South Korea revealed the defection only hours after Mr Hwang entered Seoul's consulate in Beijing on February 12. It broke a longstanding rule that North Korean defectors to China would not be disclosed, which would place Beijing in an awkward position between its old communist ally and new capitalist partner.

Pyongyang's security agents had menaced the South Korean consular office in Beijing's diplomatic district where Mr Hwang had taken refuge, but dispersed after China made clear its displeasure and stiffened security.

In Seoul yesterday, the foreign ministry said Mr Hwang's release had been negotiated on the principle that it would help contribute to "peace and stability on the Korean peninsula". Mr Hwang had said he wanted to defect to South Korea in a desperate effort to promote reconciliation between the two Koreas by holding talks with officials in Seoul.

Whether South Korea will be able to adhere to its promise not to use Mr Hwang for propaganda purposes remains uncertain. The Agency for National Security Planning, South Korea's hardline intelligence service, may have difficulty resisting the temptation to feed sensational tidbits to the media as it debriefs Mr Hwang, who is considered a gold mine of information on the inner workings of North Korea.

Japanese miners bow to the inevitable

William Dawkins witnesses the demise of another of the country's heavy industries

The formerly bustling offices of the main trade union at Miike Mine, Japan's largest and oldest coal pit, are deserted but for a few dusty boxes of files and Kenzo Yamada, the union's general manager.

Mr Yamada is at his desk, working on the last and saddest job of his 27-year career at Miike. He is negotiating severance packages for the 1,170 workers who will be dismissed when the pit closes at the end of this month, ending more than a century of industrial history. Then, the 300km of shafts and tunnels beneath Omuta, a sleepy coastal town in southern Japan, will be flooded and Mr Yamada will be applying for a clerical job in local government.

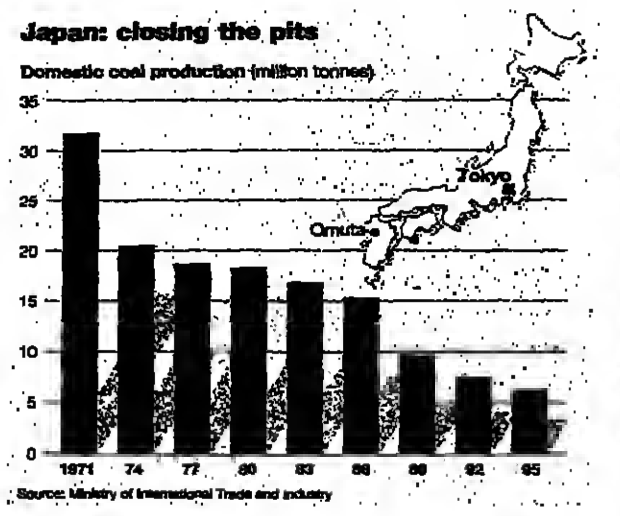
The break with an industrial past is significant, not just for Mr Yamada and his colleagues, but for Omuta – whose fortunes have ebbed and flowed with those of the mine for the past 124 years – and for Japan. Just as significant is the calm with which all involved accept their fate.

Large parts of Japanese heavy industry have been closed, or moved to cheaper countries in east Asia, at a growing rate over the past two decades, as new foreign competition has forced uncomfortable choices. Miike is an extreme example.

It costs three times as much to dig coal from the deep, unstable deposits under Omuta's beaches as to import it from Australia. Japanese power companies were until recently prepared to abide by an unwritten agreement with the Ministry of International Trade and Industry (Miti) to buy 5 per cent of their coal from domestic mines.

Japan: closing the pits

Domestic coal production (million tonnes)



Source: Ministry of International Trade and Industry

They never liked having to pay so much to support the coal industry and finally balked last year, with the backing of Mr Ryutaro Hashimoto, the prime minister.

The premier has promised to cut Japanese electricity prices – by about 20 per cent – to world levels in the next five years. Miike's owners, Mitsui Coal and Mining, could not afford to keep the mine open and cut prices.

After the closure of Miike, Japan will have a negligible coal industry, just two small pits in Hokkaido in the north and Nagasaki in the south, down from a peak of 680 in 1960.

"We knew several years ago that closure was inevitable. There is just no point in trying to resist . . . ," says Mr Yamada. The union's attitude of resignation is all the more remarkable from an organisation which in 1959 and 1960 held the longest strike – 282 days – in Japanese history, an ultimately futile attempt to stop job losses.

Learning to accept the inevitable has not been easy. Coal has been mined at Miike since the 15th century and coal is part of the culture. The mine supplied the end-of-19th-century race for industrial growth, the war effort and post-war reconstruction. It was the site of Japan's worst mining accident, when 458 died in an underground explosion in 1963. An oil painting of the tragedy hangs in the lobby of the union office and almost everyone in town knows an injured survivor.

The crude economic impact of industrial decline will, as always in Japan, be softened by generous state and company handouts. All redundant workers have been offered jobs, plus a pension worth just over half basic wage, and those still in company housing have been offered an alternative. The problem is that they are all local people and only half the new jobs on offer are in Omuta.

The paucity of new local jobs is not surprising. Omuta has been in economic decline for years. Its population is now just 140,000, a third below the 1960s peak, a consequence of successive job cuts at the mine. Ex-pit workers have been found the usual unproductive service jobs reserved for their kind, such as the local "Mitsui Greenland" theme park. But there is little room for more.

The answer, says Mr Takashi Kurihara, Omuta's mayor, is to create economically sustainable jobs, rather than throw money at more theme parks as other areas hit by industrial decline have done. It will be a long-term project to restore the 10 per cent of Omuta's economy removed by the mine closure.

The city government has, in response, accelerated a Y58bn ($478m) local development plan for a technology park, conversion of the mine's seaport to general use and highway improvement. The cost is shared with central government.

The terminal demise of coal has been an unquestioned and hence consistent part of government energy policy for more than a decade. Miti has had eight programmes for coal since 1963, of which the current one, covering the 10 years to March 2002, is destined to be the last.

Meticulous planning goes right to the grass roots. Omuta's present mayor, for instance, used to be the Miti official in charge of redeveloping former coal regions. He was invited to join the town hall by a previous mayor three years ago, in expectation of Miike's end.

Nothing in the step-by-step execution of Japan's coal industry has been left to chance, although that has not been able to dispel the air of melancholy in Omuta's tidy, deserted streets.

ASIA-PACIFIC NEWS DIGEST

HK charges five in racing scandal

Hong Kong's anti-corruption agency yesterday charged five people with illegal betting in the territory's biggest horse-racing scandal for more than a decade. After hearing the charges, the first brought in a high-profile operation launched last Sunday, all five pleaded not guilty and were freed on bail. Two of the accused were Malaysian citizens and the others Hong Kong residents.

The charges came after 37 arrests by the Independent Commission Against Corruption (ICAC), the territory's anti-corruption watchdog. The arrests included jockeys, trainers and three staff members of the Hong Kong Jockey Club, which has a monopoly on gambling in the territory. The ICAC gave few details of the probe, but said it had freed 19 of those detained.

Jockey Club revenues from races and other gambling operations totalled more than HK$80bn (US$10.3bn) last year, much more than the annual sales of Hong Kong's biggest business groups. *John Ridding, Hong Kong*

Zhao 'criticises leadership'

Mr Zhao Ziyang, China's purged former communist party chief, has challenged Beijing's leadership to speed political and economic liberalisation, according to Hong Kong newspaper reports. Apple Daily and Hong Kong Economic Journal published extracts of what purported to be a document sent to the party's politburo by Mr Zhao, 77, who lives under house arrest in Beijing.

Mr Zhao reportedly urged the party to accelerate moves towards democratic institutions, speedier privatisation of state enterprises, and criticised "inadequate" efforts to overhaul the political system, calling for more direct elections. *Tony Walker, Beijing*

Money growth rate slows

Japanese money supply growth slowed in February, consistent with a widely expected 1997 deceleration of the economy. The benchmark measure of M2 plus certificates of deposit grew 3 per cent year-on-year in February, down from a revised 3.2 per cent in January, the Bank of Japan announced yesterday. Gross domestic product is in line to grow by at least the government's target rate of 2.5 per cent in the fiscal year ending this month.

But a sales tax increase next month is widely expected to bring a pause in domestic demand, foreshadowed in this latest money supply data. *William Dawkins, Tokyo*

Blow for Manila exchange

The Philippine Securities and Exchange Commission is to withhold self-regulatory status from the Philippine Stock Exchange until it has filled key vacancies caused by a flurry of resignations, the SEC said yesterday. The move is another blow to the exchange, still reeling from the resignations of key officials.

■ The Philippine trade deficit continued to grow in January, up 40 per cent year on year from $816m to $1.145bn, according to government figures released yesterday. *Justin Marozzi, Manila*

Steps promised to bring land prices back to 'reasonable levels'

Japan to boost property market

By William Dawkins in Tokyo

Mr Ryutaro Hashimoto, Japan's prime minister, yesterday ordered the finance ministry to announce by the end of this month long-awaited proposals to stimulate the property market, widely seen as a drag on economic growth.

Mr Hiroshi Mitsuzuka, finance minister, gave no details, beyond saying he expected to produce measures to bring land prices back to "reasonable levels". The Nikkei 225 share index yesterday rose 2.17 per cent to 18,445.20, led by property company shares.

The package is widely expected to include a proposal to lift the present curbs on securitisation of property related loans: the issue of securities backed by real estate held as debt collateral. In theory, that could make it easier for banks to convert bad debts into cash.

Commercial property prices have fallen 70 per cent from their 1991 peak, the Independent Real Estate Research Institute said. This fall has been a factor in the continuing weakness of the banking system, burdened by non-performing loans taken out to buy overvalued buildings in the 1980s.

Analysts warned it would be hard to persuade investors to buy securitised property loans, unless they were government guaranteed or included generous tax incentives. Yields on high quality commercial properties in central Tokyo are now about 5.5 per cent, more than twice the 2.2 per cent on a 10-year Japanese government bond. Yields on a package of poorly tenanted properties would be far lower.

The package is likely to ease rules allowing developers to buy plots of adjoining land, at present impeded by legal and tax restrictions, and allow an easing of curbs on plot ratios, the amount of building permitted in a given area. Large tracts of Tokyo are thought too expensive to develop because they consist of hundreds of cottage-sized plots, a consequence of high capital gains taxes which have discouraged landlords from selling.

All the measures have been discussed by finance ministry groups for some time. "Some room" existed for optimism that this latest push from the prime minister could turn them into reality, said Mr Steven Weller of Jardine Fleming Securities in Tokyo.

However, securities analysts counselled caution over whether the impending package would mark real progress.

Pay deals show talks trend

By Michiyo Nakamoto in Tokyo

Japan's spring labour offensive reached a peak yesterday with benchmark industrial companies agreeing wage deals that highlight the disintegration of the traditional system of industry-wide pay negotiations.

Companies in the four leading industrial sectors of car, steel, shipbuilding and electronics agreed increases reflecting the beneficial impact of the yen's weakness and restructuring efforts on corporate performance. However, the extent of pay increases differed from company to company. Toyota, Japan's largest carmaker, underlined the widening difference in performance by agreeing a 2.83 per cent wage rise, an average Y9,400 ($76) a week, that surpassed even the labour union's expectations.

The increase at Toyota, which is considered an industry pace-setter, influenced negotiations at other companies. Honda, which is expected to report record earnings this year, increased its average pay rise to close the gap with Toyota and agreed to the full increase in bonuses demanded by its union.

Wage increases were also agreed at leading steelmakers, shipbuilders and electronics companies which have benefited from the weakness of the yen and restructuring efforts.

Steel companies, which had kept wages flat in 1995, agreed to increases for the second successive year while electronics companies also increased wages in spite of a downturn in semiconductor prices which has hit some of them badly.

However, in contrast to tradition which kept wage increases uniform across industry sectors, there was increased evidence that this industry-wide solidarity is breaking down.

Mitsubishi Heavy, the shipbuilding industry leader, agreed a Y9,000 increase that was supported by firm profits. Other shipbuilders, such as Ishikawajima Harima Heavy Industries, settled for an average Y8,700 increase.

The wage increases at the leading manufacturers, which will have a big impact on negotiations at smaller companies, come as the Japanese employers' association has been urging companies to restrain pay rises in order to regain manufacturing competitiveness.

Mr Jiro Nemoto, chairman of the Japan Federation of Employers' Associations, said yesterday that, at Y120 to the dollar, wage levels in Japan were at a par with those in Germany but significantly higher than in the US and the UK.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	12.40	16.83	18.49
0100	12.40	16.83	18.49
0130	12.40	20.05	21.70
0200	12.40	20.05	21.70
0230	[illegible]	[illegible]	21.70
0300	[illegible]	[illegible]	21.70
0330	[illegible]	[illegible]	18.49
0400	[illegible]	[illegible]	17.12
0430	[illegible]	[illegible]	17.12
0500	[illegible]	[illegible]	17.12
0530	[illegible]	[illegible]	12.02
0600	[illegible]	[illegible]	13.34
0630	[illegible]	[illegible]	12.01
0700	[illegible]	[illegible]	17.89
0730	[illegible]	[illegible]	21.99
0800	[illegible]	[illegible]	21.99
0830	[illegible]	[illegible]	21.98
0900	[illegible]	[illegible]	26.46
0930	[illegible]	[illegible]	28.27
1000	[illegible]	[illegible]	28.47
1030	[illegible]	[illegible]	28.88
1100	[illegible]	[illegible]	38.08
1130	[illegible]	[illegible]	38.10
1200	[illegible]	[illegible]	56.35
1230	[illegible]	[illegible]	56.34
1300	[illegible]	[illegible]	52.53
1330	[illegible]	[illegible]	38.07
1400	[illegible]	[illegible]	29.88
1430	[illegible]	[illegible]	29.85
1500	[illegible]	[illegible]	29.85
1530	[illegible]	[illegible]	29.85
1600	[illegible]	[illegible]	29.86
1630	[illegible]	[illegible]	29.88
1700	[illegible]	[illegible]	29.87
1730	[illegible]	[illegible]	30.04
1800	[illegible]	[illegible]	40.84
1830	[illegible]	[illegible]	48.95
1900	[illegible]	[illegible]	49.85
1930	[illegible]	[illegible]	49.37
2000	[illegible]	[illegible]	44.34
2030	[illegible]	[illegible]	35.49
2100	[illegible]	[illegible]	29.94
2130	[illegible]	[illegible]	28.46
2200	[illegible]	[illegible]	22.21
2230	[illegible]	[illegible]	22.89
2300	[illegible]	[illegible]	17.99
2330	[illegible]	[illegible]	14.22
2400	[illegible]	[illegible]	12.01

[illegible]

The pool prices for 18th March were not published. The prices are as shown in today's edition. We apologise for any inconvenience caused by this omission.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	19.85	18.18	17.08
0100	13.90	18.18	17.08
0130	19.85	42.88	43.58
0200	13.90	42.58	43.66
0230	13.90	13.90	19.80
0300	13.90	29.58	30.48
0330	13.80	29.58	30.48
0400	13.80	29.58	30.48
0430	13.90	29.58	30.48
0500	11.88	29.58	30.48
0530	11.87	12.02	12.02
0600	13.44	12.00	12.00
0630	13.44	12.00	12.00
0700	13.44	19.85	20.55
0730	20.48	30.74	31.84
0800	20.48	39.22	40.12
0830	20.48	21.48	22.37
0900	20.55	21.47	22.38
0930	26.26	26.47	21.38
1000	26.27	26.73	27.84
1030	26.27	26.73	27.84
1100	25.74	26.73	27.85
1130	25.75	33.15	34.06
1200	26.27	48.89	49.82
1230	26.27	48.80	49.82
1300	26.26	48.89	49.80
1330	26.25	33.14	34.05
1400	26.25	33.15	34.04
1430	23.54	33.15	34.04
1500	23.54	26.73	27.84
1530	23.54	26.73	27.83
1600	23.55	26.72	27.83
1630	26.27	26.73	27.83
1700	26.29	26.77	27.70
1730	26.29	33.43	34.80
1800	28.29	51.14	52.64
1830	12.28	51.51	52.97
1900	46.83	50.89	52.08
1930	63.32	37.86	39.00
2000	53.08	35.66	37.58
2030	41.87	32.61	33.52
2100	26.25	26.72	27.82
2130	26.24	21.46	22.36
2200	25.80	20.58	21.43
2230	20.48	21.04	21.95
2300	20.49	19.85	20.55
2330	20.48	12.58	13.46
2400	19.90	11.69	12.88

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible]

Australia backs government

PNG military chief resigns

By Nikki Tait in Sydney

Brigadier General Jerry Singirok, who earlier this week triggered a political crisis in Papua New Guinea by calling for the resignation of Sir Julius Chan, the prime minister, yesterday stood down as head of the country's defence forces.

But the former army chief insisted that he would continue to press the government over its estimated A$35m (US$28m) contract with Sandline International, a foreign military consultancy brought in to train PNG soldiers in Wewak for combat in the long-running guerrilla war with secessionist rebels on Bougainville island.

"The issue of Sandline is not closed... What this government is doing is wrong as it has mortgaged the country to foreigners at the expense of 4m Papua New Guineans," he said.

Mr John Howard, prime minister of Australia, which administered PNG before its independence in 1975, rallied to the defence of Sir Julius, denouncing Brig Gen Singirok's actions and saying that PNG's adherence to strong democratic traditions had been one of its hallmarks since independence.

The supportive stance contrasted with the recent bitter rift between the two countries over PNG's use of mercenaries.

Australia remains a big aid donor to the financially

Chan: row over mercenaries

strapped country, supplying around A$300m a year. About 10,000 Australians work in PNG, notably on resource-related projects. Long before the mercenaries' arrival, relations between the two neighbours had become strained, with PNG increasingly resentful of Australia's desire to tie aid to specific projects – a move seen as paternalistic.

On the stock market, shares in resource companies with exposure to PNG stabilised yesterday, following their sharp sell-off on Monday. Oil Search rose 10 cents to A$2.70 while Lihir Gold closed up 2 cents at A$2.12. Orogen Minerals, formed to hold the PNG government's stakes in various resources projects and then partially privatised, was steady at A$3.20.

Pakistan acts to prepare bank for sale

By Farhan Bokhari in Islamabad

A senior Citibank executive is expected formally to take charge of Habib Bank, Pakistan's largest public sector bank, to prepare it for privatisation.

The appointment of Mr Shaukat Tareen, expected to take up his post next week, reflects the determination of Mr Nawaz Sharif, the prime minister, to press ahead with reform of the country's deeply indebted banks and public sector companies, officials said.

Pakistan's public sector banks are reeling under the burden of more than Rs130bn ($3.25bn) worth of bad debts. Habib has been scheduled for sell-off for the past two years but the sale has consistently been delayed.

Mr Tareen, a Pakistani national at present country head of Citibank in Thailand, is the first Pakistani expatriate to have accepted the job of heading a large public sector enterprise since Mr Nawaz won elections in February.

He is understood to have accepted the position only after receiving official assurances he would be given a free hand. This would include the freedom to hire and fire, and restructure the bank. Pakistan's caretaker government, which handed over power last month, had earlier announced the setting up of a Resolution Trust Corporation modelled on the RTC in the US which dealt with the savings and loan crisis in the late 1980s.

However, Pakistan's RTC plan has already hit problems, partly because of the country's failure to convince the World Bank to extend a $200m loan for the project.

Mr Tareen's appointment comes as Pakistan is anxious to demonstrate to the IMF its commitment to bold economic reforms. A fund mission is in Pakistan this week for discussions about the future of a $831m standby loan agreement.

Doubts have been raised over relations with the Fund after Pakistan failed this year to improve its tax collections and narrow the fiscal deficit to 4 per cent of gross domestic product, the target agreed with the IMF.

It is not clear yet if other Pakistani nationals working outside the country will be appointed to similar positions, though some are understood to have been approached. "The government has begun a worldwide talent hunt among Pakistanis but no definite appointments are planned yet," an official said.

Mr Sharif has appealed to Pakistani expatriates to remit savings to Pakistan, in an attempt to boost foreign exchange revenues and engage the Pakistani diaspora in turning around the country's parlous economy.

NEWS: WORLD TRADE

Barshefsky urges action on trade links

By Nancy Dunne in Washington

The US is in danger of abdicating its leadership role in opening foreign markets, and allowing others to seize the initiative in forming exclusive trade alliances, Ms Charlene Barshefsky, US trade representative designate, yesterday told a congressional sub-committee.

In a day of hearings over the future of US trade policy, Ms Barshefsky asserted the need to forge a consensus on the relationship between trade, labour standards and environmental protection within the US. Stalemate over this relationship has prevented Congress from giving President Bill Clinton the "fast-track" negotiating authority he needs to negotiate new trade liberalisation pacts.

Under the fast-track anthority, the administration negotiates the details of trade agreements. Congress can approve or reject the agreements, but not amend them.

"We must recognise the dangers of inaction," Ms Barshefsky said. "In every region of the world, governments are pursuing strategic trade policies, and in some cases, preferential trade arrangements, forming relations around us rather than with us, and creating new exclusive trade alliances to tha potential detriment of US prosperity and leadership."

US companies were already seeing evidence that their competitors were reworking the rules to their own advantage, she said. Northern Telecom recently beat US companies to a $200m telecommunications equipment contract partly because the Canadian-Chile bilateral free trade pact gave the Canadian company a $20m price advantage. "We will suffer that handicap again and again, in country after country, if we do not stay in the game of opening markets for our companies and workers," she said.

Ms Barshefsky did not present a formal proposal for trade negotiating authority, bnt expects to deliver one next month.

She acknowledged yesterday that bilateral free trade deals with one or two countries in Asia migbt advance the momentum towards trada liberalisatioo in the Asia-Pacific region. She made clear that the administration would seek to attract Democratic snpport with provisions on labour and environment, although Republicans generally oppose these.

"There is no substitute for building a consensus at home behind a strategy to advance our objectives on core labour standards and environment protection," she said.

"I am also certain that we will not convince other nations to improve their labour standards or environmental protection by denying the president the ability to negotiate trade agreements with them."

Congressman Peter Visclosky, an Indiana Democrat and "an increasing doubter on fast-track," urged the administration to give worker rights top priority in future trade negotiations. He urged the White House to convene an international aummit on the relationship between trade and internationallabour atandards.

Business lobbyists also expressed concern yesterday that the US was falling behind, wbile US trading partners were aggressively oegotiating agreements.

Canaries try to build on tourism law

Maspalomas: coastline has been scarred by the increasing demands of tourism

Tourists in the Canary Islands have baen known to spend a week without straying off the path from their room to the pool. The majority of the 9m holidaymakers who visit the Spanish province located off the south-west coast of Morocco go only to enjoy the warm temperatures during the northern European winter.

Now local planners and business people are becoming increasingly concerned at the development of a tourism monoculture whera attractions and facilities outsida the coastal hotels are not supported.

Local autborities attending an international conference on tourism and natural areas in Las Palmas, capital of Gran Canaria, recently undertook to reverse the trend of uncontrolled development of the past 20 years.

Investment in tourism infrastructura is concentrated on tha coastlines of the busiest islands – Gran Canaria, Tenerife and Lanzarote. The southern coastline of Gran Canaria, the location of the spectacular and protected dunes of Maspalomas, is scarred by motorways, hotels and apartments out of scale and context with the natural landscape.

Delegates at the conference, organised by the Canarian government and supported by the European Union, were optimistic that the implementation this year of a tourism law would impose controls on land use: the legislation would restrict development to one botel room per 60 sq m.

"The growth model has been disorganised, and chaotic development has destroyed rural landscapes with a huge consumption of natural resources," said Mr Jose Miguel Ruano, a Canarian government presidential adviser. "There is a need for more organised growth to incorporate the qualitative edge of demand. There has been too much concentration on supply," be said.

However, the planned new law may have tha effect of reducing the stock of land available to the islands' 1.5m local residents and pnt a greater strain on services and infrastructure, warned Mr Peter Ashcroft, from the UK's Countrysida Commission. The Canarian government should ba asking whether there is a need for the tourist population to be increasing by 5 per ceot annually when the resident population is increasing by only 1 per cent, be said.

Witb tourlst arrivals increasing in each of the past four years, development, while not as intensive as tbat of the 1970s and 1980s, has continued. At the resorts along the coast from the Maspalomas dunes, apartments resembling rows of white beebives are stacked up the steep hillsides above beaches made from millions of tons of sand dredged from the sea bed. Builders are poised to move into the newest such resort in the making, Playa de Amadores, conspicuous only by its man-mada whita, sandy beach clinging to the rugged rocky coastline.

The service sector has continued to grow steadily, from 75 per cent of gross domestic product in 1983 to 79 per cent in 1994, with employment in services rising from 63 per cent of total employment to 77 per cent over the same period. Employment in agriculture declined from 18 per cent of total employment to 7 per cent, while industry fell from 11 per cent of GDP to 9 per cent.

Meanwhile, those involved in cultural and leisure activities in the island believe they do have something to offer the tourist.

The Institute of Astrophysics (IAC) with bases on La Palmas and Tenerife attracts more than 30,000 visitors a year. Its director, Mr Francisco Sanchez, said at the conference that science and technology should be integrated into the cultural beritage as tourists seek more information.

The astronomers have the plans, but not the money, to expand a visitors' centre. The focus at natnral reserves is still mostly on research and protection.

Gran Canaria's principal natural reserve area, Inagua, is testimony to this, with its spectacular red mountains sprinkled with pine trees, escarpments with patches of green sulphurised rock and views of valleys and the ocean. The reserve is closed to vahicles, apart from school groups, because the roads are treacherous – no walking trails, maps or rescue facilities are provided.

The Environment Department guards it closely from development. But, say advocates of eco-tourism, it is the very existence of snch a place, just a few miles away from tha excesses of development on the coast, which highlights the need for a balance to be found in dispersing the tourists and the revenua tbey bring witbout sacrificing natural resources.

Marian Edmunds

Coface profits up by 19%

By Andrew Jack in Paris

A surplus on its programme of government-backed credit insurance at a time of rising exports belped lift profits at Coface, the Freocb trade insurer, by 19 per cent to FFr246m ($43m) last year on a turnover of FFr2.9bn.

Coface reported a surplus of FFr5.1m, witb premium *income exceeding insurance* claims for the first time in 15 years. The insurer broke even the year before, after a series of progressively diminishing deficits since 1990. Coface said the rising profitability reflected the improved financial situation of debtor countries and a more active management of outstanding claims. Overall, the group reported a decline in claims for the seventh year in succession since its peak in 1989.

The volume of French exports covered by commercial short-term risk guarantees rose to FFr194bn from FFr176bn, and the value of signed contracts underwritten by public guarantees increased modestly to FFr70bn.

Coface expressed optimism for its growth during 1997, in view of an improved business environment in western Europe set to help exports, and renewed interest in foreign currency cover.

WORLD TRADE NEWS DIGEST

Europe launch for free paper

Sweden's Modern Times Group, part of media company Kinnevik, said yesterday it was to launch its free newspaper, Metro, throughout Europe.

The paper, available in underground railway stations in Stockholm, will be launched this summer in Prague – the first in a chain of Metro newspapers across Europe. The newspaper, Metro Czecb Republic, is a joint venture between Metro International and Reocar, which sells advertising space in the underground in Prague.

Metro was introduced in Sweden two years ago and is read by 90 per cent of Stockholm commuters. The newspaper in Sweden publishes domestic and international news. *Reuter, Stockholm*

Thai aircraft deal agreed

The Thai cabinet yesterday approved a plan by state-owned Thai Airways to buy 21 aircraft from Boeing and Airbus over five years but refused to authorise the spending for the purcbases.

Prime Minister Chavalit Yongchaiyudh told the airline earlier this year it oeeded to find alternative financing plans for the new aircraft, valued at $2.35bo, before it would receive approval for the imported aircraft because of the ecooomic downturn and high current account deficit.

The cabinet said Thai Airways could only buy the aircraft through a counter-trade mechanism in exchange for Thai agricultural goods.

It may also lease the airplanes subject to the approval of the finance ministry. *Ted Bardacke, Bangkok*

Steel dumping denied

Trinidad and Tobago has rejected a US complaint that the *country's steel exporter has an unfair advantage because* of government subsidies, and has been dumping steel in the US.

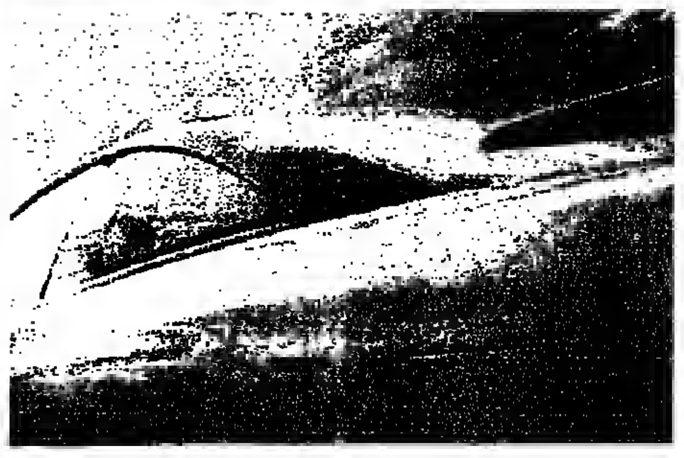
The complaint was filed with the US Department of Commerce and is aimed at Ispat Caribbean, owned by Ispat International of the UK. Ispat Caribbean, which exports 260,000 tonnes of wire rods annually to the US, was created in 1994 wben the state-owned Iron and Steel Company of Trinidad and Tobago (ISCOTT) was sold to Ispat International for $101m. "What the US companies are trying to prove is that the alleged subsidies that the government may have provided to ISCOTT wheo it was a government-owned company, are now transferable to the present owners," said Mr Ralph Maraj, Trinidad and Tobago's foreign trade minister.

"The government has never made any investments in or provided any equity infusions to Caribbean Ispat's steel operations. *Canute James, Kingston*

■ Japan is to provide export guarantee insurance for $100m of equipment for an ethylene plant being sold to Azerbaijan, the first time it has provided cover for the country. *Bethan Hutton, Tokyo*

■ ABB Asea Brown Boveri has formed a joint venture in Vietnam to produce advanced switchgear and transformers for the domestic market. ABB owns 65 per cent of ABB Transformers and Switchgear, while state-owned THIBIDI has the rest. *Reuter, Zurich*

■ Microsoft and China's Legend Group yesterday signed a software licensing agreement worth 100m yuan ($12m) to Microsoft over the next two years. *Reuter, Beijing*



Minister scorns opposition party's 'absurd guessing game' over levy on privatised utilities

Labour refuses to name tax targets

By David Wighton and John Kampfner

Associated British Ports would not be subject to Labour's proposed tax on "windfall" profits, it emerged yesterday. Mr Gordon Brown, the party's shadow chancellor of the exchequer, confirmed that the levy would hit all privatised utilities regulated by statute.

Mr Brown would not name any particular companies, but it is understood those affected would include British Telecommunications and BAA, the airports operator, as well as gas, water and electricity companies.

Mr Brown also seized on a report yesterday by the House of Commons trade and industry committee. He said it offered support for the principle of the levy.

The committee said the government should consider forcing National Power and PowerGen, the former state-owned generating companies, to sell generating capacity unless there is a significant increase in competition in power generation.

It said that Offer, the electricity industry regulator, should keep the development of competition in generation under active review. "The possibility of further sale of capacity by the two main generators [National Power and PowerGen] should not be excluded."

Conservative members of the committee denied that its report endorsed Labour's planned "windfall" tax. Mr Kenneth Clarke, the chancellor of the exchequer, condemned Mr Brown for refusing to name the companies that would be made to pay.

"The latest windfall tax fiasco again shows that Labour are not fit to govern," he said. "Instead of saying which companies would pay the windfall tax, Labour are playing an absurd guessing game, giving journalists a clue and daring them to work out the answer for themselves."

Mr Clarke was particularly critical of the decision to include BT in the tax, given the importance of the UK's cheap and sophisticated telecommunications in attracting foreign financial services companies to London.

Ministers also pointed to the discrepancy between the £3bn cost of the employment programmes Labour said the tax would fund and indications from sides to Mr Brown that the levy could raise more than £5bn.

An adviser to Mr Brown said: "We have a costed programme of £3bn which we can comfortably cover by the windfall tax. If we can do more, we will. We believe it is likely that the total we will raise will be in excess of £5bn. But we won't make a decision until we have consulted Treasury officials, the regulators, and others if we form the government."

He added that Labour had been warned against naming particular companies for legal reasons.

The Commons committee report on energy regulation made no judgment of the windfall tax. However, it produced evidence of high internal real rates of return to shareholders at some companies. Mr Brown said it showed privatised electricity and gas companies had made excessive profits due to weak regulation.

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Privatised industries: shareholders' investment returns

	Month sold	Nominal internal rate of return pa %	Real internal rate of return pa %	Investment Period‡‡ (years)
British Gas*	Dec 1986	16	11	10
Eastern Electricity*	Nov 1990	46	42	5
East Midlands Electricity**	Nov 1990	38	35	6
London Electricity**	Nov 1990	35	32	6
Manweb*	Nov 1990	42	38	5
Midlands Electricity*	Nov 1990	43	40	6
Northern Electric**	Nov 1990	40	37	6
Norweb†	Nov 1990	47	44	5
Seeboard*	Nov 1990	50	46	5
Southern Electric	Nov 1990	35	32	6
South Wales Electricity*	Nov 1990	45	40	5
South Western Electricity*	Nov 1990	44	41	5
Yorkshire Electricity	Nov 1990	38	35	6
PowerGen				
–first tranche	March 1991	34	30	6
–second tranche	March 1995	20	18	2
National Power				
–first tranche	March 1991	33	30	6
–second tranche	March 1995	24	23	2
Scottish Power	June 1991	17	14	6
Scottish Hydro-electric	June 1991	25	23	6
Northern Ireland Electric	June 1993	26	23	4
British Energy¶ (partly paid)	July 1996	(121)¶	(111)¶	1

‡‡ The "Investment Period" is the time from privatisation until 31/1/97, rounded to the nearest whole year. When a company is taken over, the Investment Period is deemed to end at takeover date, even when the IRR calculations assume the investor retains shares, eg in NGC or the new owner. ¶ The 31/1/97 IRR for BE is for part-paid shares and could be misleading. The fully paid forecast estimates the IRR after the final instalment, assuming no further change to the share price.
* Taken over ** Takeover agreed † Now United Utilities

Russia signs military co-operation agreement

By Bernard Gray in Moscow

Mr Michael Portillo, the UK defence secretary, signed a defence co-operation agreement yesterday with his Russian counterpart, Mr Igor Rodionov, which is intended to boost ties between the two countries' military officers.

The two men signed a memorandum of understanding to cover areas such as training, the resettlement of redundant Russian officers, and improved operational contacts between the two countries' armed forces.

In diplomatic talks arranged just as Mr Rodionov has been re-appointed as defence minister and just as Mr Portillo heads into a national election campaign, the two men also discussed the enlargement of Nato.

Mr Rodionov stressed that Russia still opposed the likely expansion of Nato to central European countries, but said that Moscow would like to see a new legally-binding agreement between Nato and Russia. Such a charter is being proposed to soften the blow of Nato enlargement on Russian sensitivities.

Perhaps surprisingly, given that Mr Rodionov is a traditionalist from the Russian army, the two men got on well, swapping gifts of vodka and jazz cds.

However, Mr Portillo emphasised that good contacts were needed throughout the military chain of command if old suspicions were to be eliminated.

"It is not enough that we get along personally," said Mr Portillo yesterday. "Developing relationships between individual officers is the way to increase understanding and reduce the areas of misunderstanding."

The UK is providing retraining for Russian officers who are being made redundant as a result of the drastic cuts in Russian military strength. Some 2,000 have been through the four-month programme so far.

Return of the Reformer, Page 13

Single market in EU faces court scrutiny

Judges to rule soon on cut-price tobacco sales

The next British government's budget plans could be disrupted if a case brought in Luxembourg this month by the Enlightened Tobacco Company, maker of Death cigarettes, goes against the Customs & Excise department.

It is one of the most important tests of the European Union's single market principle. Victory for ETC could pave the way for harmonisation of European excise duties. The company set up the Tobacco Direct mail order service in 1995 to import leading brands of cigarettes from low-tax European countries and sell them at up to 40 per cent below list prices.

In the short term, a win for the company would in effect legitimise the smuggling of tobacco, alcohol and other high-tax items.

ETC took its case to the European Court of Justice after its scheme – which avoids UK excise duties by using an agent to import cigarettes – was outlawed by the High Court in London.

The court ruled that under EU rules and UK law an individual had to bring tobacco back to the UK in person to avoid paying duty. But the judge advised ETC to appeal and the Court of Appeal referred the case to Luxembourg.

The case turns on the meaning of article 8 of a 1992 EU directive about the way excisable items are treated in the single market and, in particular, on the precise meaning of the word "them".

The article says: "As regards products acquired by private individuals for their own use and transported by them the principle governing the internal market lays down that excise duty shall be charged in the member state in which they are acquired."

According to Mr Robert Venables, ETC's lawyer and a leading tax advocate who helped draft the Tobacco Direct scheme, the law allows people to employ an agent to transport the goods for them because "a person who does something through an agency of another does it for himself".

But Customs & Excise argues that the directive makes clear that UK citizens are entitled to the benefit of the lower excise duties only if they personally import the goods themselves. It is supported by nine member states. Most have translated the relevant phrase of the directive as "and transported by themselves".

German law says "and those who transport them themselves". Denmark goes even further, requiring "and personally transported by them".

According to Mr B.J. Cunningham, founder of ETC, the company fears it may lose because of the political implications of a decision in its favour. "We believe we're right on the law and if the law is genuinely independent of politics we will win."

He added that at the oral hearing in Luxembourg this month, "nine member states stood up one after another and said 'you can't rule for them because we'll lose billions'. That was basically their argument."

Partial support for ETC's case came from the European Commission, which said an agent could act on behalf of an individual but the agent was not entitled to make a profit.

Robert Rice

Malcolm Watson

The fate of the tax-avoiding tobacco trade depends on interpretation of an EU directive

British guns will go to US Army

By Leyla Boulton in Washington

Textron Marine & Land Systems of the US, in partnership with VSEL, has won the first part of a $39.63m contract to supply light test guns for the US Army and Marine Corps. VSEL is a subsidiary of Britain's General Electric Company.

Textron joined with VSEL to offer the UK company's Light-Weight Field Howitzer. It beat off competition from United Defence, another US company, which teamed up with British Aerospace's Royal Ordnance division.

The UK's Ministry of Defence said the test guns contract could lead to an order for the initial production of 190 guns for the Marine Corps. If the US decided to replace all its current M198 155mm field guns, total orders could reach 1,000 Howitzer guns worth more than $1bn.

Mr Michael Portillo, UK defence secretary, had lobbied hard for the contract to go to a British company as part of his efforts to open up a "two-way street" in arms procurement. The UK has $4bn of US arms on order while the US has a backlog of only $1bn worth of British defence goods. Mr Portillo raised the issue with Mr William Cohen, his US counterpart, in Washington last week.

The order was placed with the US-British team in spite of domestic pressure to award it to the US defence industry. Lockheed Martin, the US aerospace giant, has been working on an alternative to the British companies' guns.

Tougher sanctions on bank chiefs delayed

By John Gapper, Banking Editor

The Securities and Futures Authority, the City of London regulator, has delayed publication of revised proposals to toughen sanctions on senior directors of investment banks that allow failures to occur.

The SFA said yesterday it was delaying consultation on the proposals to ensure that they fitted with a similar initiative by the Securities and Investments Board, to which it is responsible. The SFA said it had considered 100 responses from banks and broking firms, as well as trade groups. It is thought to have softened some of its proposals, including one to reverse the burden of proof of misconduct.

The SIB, which is reviewing regulators' attempts to ensure that senior managers take responsibility for matters inside their companies around the world, expects to publish reform proposals at the end of April. The SFA said it was informing the SIB of the results of its consultations and internal discussions, and would "continue to stress the responsibility of senior management for the control and compliance environment of their firms".

Separately, the SFA yesterday disclosed judgments against several registered individuals and member firms. It has fined English Trust Company, a small merchant bank, £40,000 ($63,600) and reprimanded it, over problems in executing a share underwriting. The SFA said English Trust had not ensured a sub-underwriter could pay for shares.

The SFA said that after two sub-underwriters defaulted on a commitment to buy shares in a placing for a company, English Trust had entered an agreement with another company to take on sub-underwriting responsibility for the issue. The company failed to pay by the agreed date. Mr Stephen Goschalk, a director of English Trust, was severely reprimanded and fined £10,000. Mr Christopher Spence, its chairman, was reprimanded and fined £5,000.

The SFA expelled Mr Friedrich Kramer, a former senior futures trader with Lehman Brothers in London who exceeded an agreed trading position and then tried to induce a trader at another firm to confirm fictitious trades.

UK NEWS DIGEST

Companies face excise inquiry

More than 4,000 big companies and municipal authorities face a review by Customs & Excise to see if they should be included in its tough regime for curbing tax avoidance.

The move follows a critical report by the National Audit Office, a government agency, into Customs' procedures for checking value added tax returns from large companies where there is a risk of avoidance.

The review will include companies in the financial services, retailing, wholesale, construction, transport, communications and banking sectors. At the moment, 1,500 companies which pay £11.4bn ($18.1bn) – or 34 per cent of the total £34bn VAT collected – fall within the regime for large traders.

Generally, large traders are those with throughput – VAT claimed and paid – of more than £3m a year. But many companies, judged as low risk, are not included. The NAO said that the current systems "work well" but could be both "more efficient and effective".

As a result, Customs will review 40 companies identified by the NAO to see if they should be included in the large trader system. It will review all companies not in the system which have a throughput in excess of £7m – about 4,000 companies according to Customs. *Jim Kelly*

COMMERCIAL INSURANCE

Lloyd's begins selling in Japan

Lloyd's of London yesterday began selling commercial insurance in Japan, the world's second biggest insurance market where non-life sales are growing at 4.5 per cent annually. Sir David Rowland, chairman, (pictured left) said in Tokyo that six Lloyd's underwriting groups would initially offer fire, marine, engineering, power stations, liability and personal accident insurance. He played down fears that Lloyd's might seek to compete with Japan's domestic insurers, saying that the UK insurance market would not underwrite business at "uneconomic rates". The way was cleared for Lloyd's to set up in Japan after new insurance laws took effect last April. *Christopher Adams*

EU FARM SUBSIDIES

Boost urged for organic producers

The agriculture committee of the House of Commons today urges the government to increase aid payments to organic food producers to help them compete against large European Union subsidies for conventional farmers.

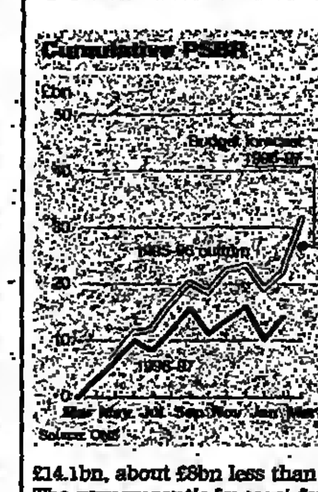
The committee rejects arguments by the UK Ministry of Agriculture that market forces should take precedence over taxpayers' support for organic farming.

The committee's findings have been welcomed by Mr Patrick Holden, director of the Soil Association, which sets standards for organic farmers. Payments to UK farmers converting to organic production are the lowest in the EU.

Existing organic producers receive no support in the UK, a situation mirrored only in France, Greece and some German *länder*. *Alison Maitland*

PUBLIC SECTOR BORROWING

Government set to beat forecast



The government yesterday looked set to undershoot its public borrowing forecast after figures showed it borrowed less money last month to meet the shortfall between spending and tax revenues than City of London economists expected. The public sector borrowing requirement totalled £3.6bn ($5.7bn) in February, according to figures released yesterday by the Treasury and the Office for National Statistics. This took total borrowing in the first 11 months of the present financial year to £14.1bn, about £8bn less than at the same stage last year. The government's forecast for the whole year is £26.4bn. "The public finances are at last feeling the benefit of the economic recovery," said Mr Jonathan Loynes, economist at HSBC Markets. Another surge in tax receipts more than offset a rise in spending by government departments. Income tax receipts were especially strong, at £6.3bn from £4.9bn in February last year. *Graham Bowley*

SINGLE EUROPEAN CURRENCY

Retailer warns of collapse

A single European currency could lead to economic, social and political collapse on a widespread scale, a leading retailer warned yesterday.

Sir John Hoskyns, chairman of the clothing retailer Burton Group, said at a conference in London that the European Union could no more set the exchange rates of its member states into a permanent structure than the spot oil price could be fixed for 50 years.

Sir John said there were ways of mitigating the effect of a single currency by, for example, limiting it to a core group of countries such as France, Germany, Austria and the Benelux states. But it was too late to turn back completely. *Peggy Hollinger*

Commercial strains show in digital TV deal

Link with TCI offshoot reflects traditional BBC aversion to broadcasting advertisements

The deal between the BBC and Flextech to launch no fewer than eight new channels for the UK digital television market is one of the most remarkable of its kind. Flextech, controlled by TCI of the US, is a fast-growing cable and satellite programming company.

A few years ago it would have been inconceivable for the "cornerstone" of British public service broadcasting to enter a 30-year programme supply deal with a partner which, less than six years ago, was an oil services company.

Even now, after hundreds of legal documents between the two sides have finally been completed, it is still possible to see the small tensions, the places where lines have been drawn between the commercial programmer and the public service corporation.

Mr Bob Phillis, deputy director-general of the BBC and chief executive of BBC Worldwide, the commercial arm of the corporation was emphatic that new subscription channels which carried the BBC name would not have advertising. Two of the planned channels would probably carry the BBC name.

"We don't want to concede the principle of advertising on BBC branded channels in the UK," said Mr Phillis. The fear is that such advertising on BBC branded channels might undermine the rationale for the licence system by which the BBC is funded from a state levy on all users of television sets.

Joint BBC-Flextech subscriptions will all carry advertising, but not the BBC brand name. Another important BBC principle reiterated by Mr Phillis yesterday was the fact that all programmes paid for by the licence fee will always first be shown on the existing BBC1 or BBC2 channels.

For the BBC it is the imminent arrival of digital television in many forms which has persuaded the corporation to seek a joint venture partner to try to maximise revenues.

Flextech is providing the risk capital in return for access to the BBC programme library and programming expertise. The BBC hopes that it will be able to supplement the licence fee, and plough money back into programming, with earnings from the new subscription channels.

The new channels will be shown on whatever digital "platforms" come along, whether they are digital satellite, digital cable, digital terrestrial or even television channels relayed down telephone lines.

For the BBC, the link with TCI means a slot on TCI cable networks in the US and elsewhere. And a second big programming joint venture with Discovery, the factual channel in which TCI has a 49 per cent stake, is already under negotiation.

For Flextech, there is not just access to the BBC programme library and the ability to make new versions of old programmes. The company hopes that the perceived BBC quality will make its channels stand out in the multi-channel world.

Raymond Snoddy

Mr Gerald Kaufman, chairman of the House of Commons national heritage committee, said yesterday it was time to replace "the gifted or well-intentioned amateurs" on the board of governors of the BBC, Raymond Snoddy writes.

Instead, the BBC should be run by an executive chairman and qualified non-executive directors. "The BBC is a big business and this committee believes it should become an even bigger business," said Mr Kaufman as the committee published its report on the future of broadcasting.

Editorial comment, Page 13

Amnesty chief urges human rights groups to end traditional hostility to company dialogue

Campaigners told: talk to business

By Stefan Wagstyl, Industrial Editor

Mr Pierre Sané, secretary general of Amnesty International, yesterday urged non-governmental organisations campaigning on environmental and human rights issues to end their traditional hostility to exchanging views with business.

Mr Sané was speaking the day after Shell, the oil group which has come under repeated attack from NGOs, announced that it wants to consult with NGOs on sensitive projects. Shell has been extensively criticised over its operations in Nigeria following the execution of Mr Ken Saro Wiwa, the minority rights activist, and its proposals to dump the Brent Spar oil platform in the Atlantic Ocean.

Mr Sané said: "Our experience to date shows the need for greater exchanges of information between NGOs and business." NGOs which stuck to their principles should have no fear of compromising themselves or losing their "purity". "We are not going to discuss anything if we start by shouting at each other."

The Amnesty chief also urged business to involve itself more in promoting human rights in the developing world. While governments bore the main responsibility for human rights, big companies had real influence. "If [this influence] were used for the improvement of human rights, the world could have a powerful weapon for its betterment and companies a better climate for their investment," said Mr Sané, speaking at a London conference on development issues called Companies in Conflict.

Mr Sané said it was not enough for companies to declare they were neutral on human rights. During the international campaign to stop Mr Saro Wiwa's execution, Shell was virtually silent, he said. "I simply do not believe that the Nigerian government perceived the silence of one of its most influential and powerful investors as neutral."

Mr Sané welcomed Shell's policy statement, in which it declared its intention to support "fundamental human rights". But Shell should be judged on how this statement was translated into practical action, Mr Sané said.

Mr Vincent Cable, Shell's chief economist, told the conference that the group had protested at Mr Saro Wiwa's execution. He said the power of companies to influence governments was exaggerated. In a globalising economy, companies had to take account of how their competitors might respond. For example, after the US-imposed embargo on Iran had forced western companies out of Iran, Petronas, the Malaysian state-owned oil company, went into Iran.

Mr Cable added that many companies were influenced by the fact that in the 1960s and 1970s they were urged not to interfere in politics in developing countries, particularly after ITT, the US group, was involved in the overthrow of the Allende government in Chile.

Companies also had to avoid involvement in secessionist conflicts. "Nothing would be more irresponsible for western companies than stoking the politics of secession."

Sudan avoids IMF expulsion

By Mark Huband in Cairo

Sudan has checked the threat of expulsion from the International Monetary Fund by agreeing to a package of economic reforms including measures to tackle its $20bn foreign debt, according to western bankers.

The IMF has imposed stiff conditions on a new 10-month stabilisation programme encouraged by its major shareholders – in particular the US – which will entail a radical change of Sudanese economic policy.

The conditions are designed to prevent an increase in the country's estimated $1.7bn arrears to the fund. The arrears had led the fund to warn Sudan about expulsion unless it resumed regular repayments.

The programme is intended to increase growth from its present 4.7 per cent to 4.9 per cent, and cut inflation from 118 per cent to 65 per cent by the year-end. It was agreed with IMF staff in Khartoum but must receive final approval from the fund's board on Friday.

The government has also pledged to unify exchange rates, by bringing the present 22 per cent difference between the official and black market rates down to about 8 per cent during the same time period.

In carrying out these measures, those behind the programme hope to start moves toward restoring normal relations between Sudan and its Paris and London Club creditors.

Sudan's total external debt in 1996 was 283 per cent of gross domestic product, or $20bn, while GDP was $7bn.

The level of domestic borrowing has caused inflation to soar. The government last year borrowed just less than 2 per cent of GDP from the central bank.

This level excludes debt repayment, which has been terminated except for some interest, payment of which would have pushed the level of borrowing up to 14 per cent of GDP last year.

The new programme envisages a drastic reduction in central bank lending, from S£220bn ($1.5bn) to S£80bn this year. The new budget deficit target, which at present stands at 3.4 per cent of GDP, is intended to be brought to 1 per cent by the end of December.

As a corollary to the programme, government subsidies on petroleum products – which have been reduced by 90 per cent since last November – are to be phased out, and subsidised domestic prices are to be continually adjusted in line with international petrol prices.

As a sign of the intense foreign political pressure on Sudan to abide by the terms of the programme, the government will be subjected to monthly monitoring of its progress. Normally such programmes are examined every six months.

INTERNATIONAL NEWS DIGEST

Russian arms draw crowds

Russian weapons from the Kalashnikov rifle to anti-submarine mine systems drew crowds at the IDEX arms show in Abu Dhabi yesterday but analysts said Moscow still faced tough competition from the world's biggest arms suppliers.

The Russians have come out in force in Abu Dhabi, showing off their weapons in style at one of the largest stands at the International Defence Exhibition – among the world's biggest arms shows.

Moscow has sent about 80 defence enterprises to the show, hoping to boost Russia's weapons sales with 500 exhibits, live weapons systems, models, brochures, booklets and videos. Mr Alexandr Kotelkin, of Rosvooroouzhenie, Russia's top arms export agency, said Moscow would by 1999 catch up with Washington, the world's chief arms supplier. He estimated the international arms bazaar would total about $18bn by the end of the century, with Russia and the US each holding a third of the market. *Reuter, Abu Dhabi*

East African rains bring hope

Rains battered most food-growing areas of East Africa for the first time since December yesterday, brightening hopes of a better 1997-98 food crop, weather and crop officials said.

Coffee growers reported showers in northern Tanzania and weather officials reported heavy rains in western Kenya. Farmers spoke of torrents in Uganda's growing Soroti district.

Kenya and Uganda have forecast lower 1996-97 and 1997-98 coffee crops because of a severe drought in East Africa.

In Nairobi the Famine Early Warning System (FEWS) said drought monitors had predicted that the long rains would be near normal in west Kenya while drought-hit pastoral and marginal agricultural areas would experience below-normal rainfall.

FEWS said the effects of massacres and mass kidnappings by the rebel Lord's Resistance Army and the West Nile Bank Front had disrupted food production and trade in northern Uganda. *Reuter, Nairobi*

Bahrain rejects rights critics

Bahrain yesterday rejected criticism from the human rights group Amnesty International over the trial of 81 people accused of involvement in what officials termed a pro-Iranian plot to topple the government.

A justice ministry official quoted by Bahrain's official Gulf News Agency rejected charges by the London-based human rights group that the suspects were not getting a fair trial. "The right to a fair trial, defence and guarantees in accordance with Bahrain's laws were made available," the Gulf Arab state's official said. He said the defendants were being tried by the State Security Court "with the presence of their lawyers and their families".

The defendants are accused of joining the military wing of the Bahraini Hizbollah, creating an organisation aimed at toppling the government, possessing weapons without permission and having contacts with a foreign country. Members of the island's majority Shia Moslem community, seeking political and economic reform by the Sunni rulers, have waged a campaign of bombings, arson, sabotage and riots since December 1994. At least 28 people have been killed and hundreds arrested. *Reuter, Manama*

Earth summit promises 'not kept'

By Geoff Dyer in Rio de Janeiro

The world's main industrialised countries have "failed utterly" to honour commitments made at the 1992 Earth Summit in Rio de Janeiro, according to a senior official at the United Nations.

Mr Gustave Speth, head of the UN Development Programme, said large countries had not taken sufficient steps to change their energy-policies to reduce carbon dioxide emissions, the main contributor to global warming, and had failed to increase development spending.

"How can it be expected that the weak uphold their end of the bargain when the powerful do not uphold their end?" he asked. Mr Speth was speaking at the Rio+5 environmental conference, which has brought together 500 delegates from non-governmental organisations, industry and UN agencies to find ways of implementing the goals set out in 1992.

The conference will publish a series of recommendations which will be presented to a special session of the UN on the Earth Summit in June, as well as the "Earth Charter", a document of values it will encourage the international community to adopt.

Mr Speth said that despite a commitment at the Rio summit to double spending on development assistance, a vital factor in improving environmental conditions, actual development spending from the big industrialised nations had decreased 20-25 per cent in the past five years.

Mr Speth also endorsed the call by a number of delegates for creation of a permanent world environmental organisation, which would develop regional and global environmental agreements, conduct research and promote co-operation.

Many environmentalists feel the absence of a permanent body means they are unable to debate effectively with other large international bodies, such as the World Trade Organisation.

"We have lost some of the momentum since Rio '92," Mr Speth said; the new organisation would help "reinvigorate" the debate. The existing UN Environment Programme was the logical location for any new body, he added.

Mr James Wolfensohn, president of the World Bank, claimed that the bank's attitude towards the environment had been transformed since he took over 20 months ago.

In a speech to delegates, Mr Wolfensohn admitted that the bank had made many mistakes in the past over its treatment of environmental issues, but claimed it was now "being less arrogant and is listening more".

Algeria polls 'may help heal conflict'

By Roula Khalaf in London

Algeria's legislative elections could contribute to a resolution of the Algerian conflict if all legal political parties agreed to participate, according to Mr Abdelkader Bengrina, deputy head of Algeria's unelected National Transitional Council.

However, Mr Bengrina, also a leading member of Hamas, a legal Islamist party, warned in an interview in London that government bias towards some parties would undermine the effectiveness of the vote.

The elections, scheduled for June 5, will exclude the Islamic Salvation Front (FIS), the party which had won the 1991 first round of elections cancelled by the army, provoking a five-year struggle between Islamic militants and security forces. But Mr Bengrina said the inclusion in the elections of parties which had long stood by the FIS and insisted on its rehabilitation could help curb violence.

"The participation of these parties means the end of the political cover for the violence," he said. "It removes the legitimacy of armed struggle, and the moral support for terrorism."

Among the FIS's former key allies, the National Liberation Front (FLN) is riven by internal splits but its current leadership is back in the government fold. The Socialist Forces Front (FFS), which advocates dialogue with the FIS, has yet to declare its participation, although it may have little choice but to take part.

The FFS believes the political system being put in place amounts to an institutionalisation of dictatorship, since last November's constitutional amendments left the new elected assembly with limited powers.

Hamas is hoping to capitalise on the FIS exclusion by attracting Islamist voters, although the party is criticised by the FIS leadership for supporting the Algerian army-backed government. Such an outcome would be welcomed by the government, which hopes to prove the FIS is no longer a relevant political force.

Algeria's new constitution officially bars parties based on religion. But while Hamas can no longer call itself Islamist, Mr Bengrina said its Islamic tendencies would help attract those who opted for "moderate" Islam.

Like the rest of Algeria's political class, Hamas is closely watching the birth of the new "presidential" party set up last month and grouping grass-roots associations whose support was instrumental in the 1995 election of President Liamine Zeroual. Algerian opposition parties worry that the new National Democratic Rally will receive special government support.

IMF praises reforms and calls for more

The International Monetary Fund has called on Algeria to accelerate the pace of economic reforms and warned that its economy remains "vulnerable".

The Fund's letest staff appraisal largely follows its supportive line of the last two years and attempts to paint a glossy picture of the economy's future. But it also says that Algeria is entering a second, more difficult phase of structural reform, where the success of policies depends on factors sometimes outside Algeria's control.

They include investor perceptions of Algeria's potential and oil price fluctuations (oil and gas account for more than 95 per cent of foreign currency earnings).

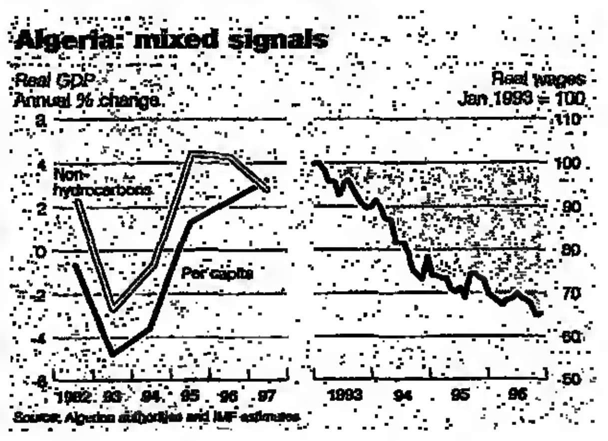
There is also the question of whether Algeria is capable of reforming its socialist-style economy while it is caught up in *serious political* violence in the five-year-old battle against Islamic militants.

The IMF programme in Algeria – the Fund agreed a $1.5bn extended facility in 1995 and paved the way for a restructuring of Algeria's debt – has been criticised by opposition leaders ae a means of propping up the government while providing little benefit to ordinary Algerians.

The opposition argues that restructuring the economy can only be achieved in a stable political and security environment and that the regime's tight grip on politics will continue to allow special interests to maintain their hold on economic power. In the past two years the government and the non-elected parliament have pushed through reforms so quickly that Algeria managed to exceed the macroeconomic targets set by the IMF. They have been helped by a rise in oil prices and good rains.

The current account is estimated to have reached a surplus of $150m by the end of 1996 and the overall balance of payments was $2.7bn in deficit, about $1bn lower than expected.

The IMF estimates economic growth in 1996 to have reached 4 per cent.



Because it was largely based on a bumper cereal harvest and expansion in the oil and gas sector, the Fund says such growth remains "fragile".

The budget, meanwhile, is estimated to have recorded a surplus of 2.6 per cent of gross domestic product (compared with the 0.3 per cent *surplus projected* under the programme). The Fund praises the government's efforts to reduce spending and says the surplus would bave reached 0.7 per cant even without the higher oil revenues.

Bnt these figuree mask more worrisome trends. The Fund report says that industrial production declined by 4 per cent last year, with output falling in most industries. This reflected "the lack of competitiveness of most public enterprises in the face of import liberalisation, and a tightening of their budget constraint imposed by banks". Domestic savings and investment levels also have suffered. Non-government investment dipped to 21.1 per cent of GDP last year from 25.1 per cent in 1995.

Unemployment, meanwhile, has increased to 28 per cent from about 25 per cent. "Addressing [unemployment] effectively requires high growth rates in the non-hydrocarbon sector and a shift towards labour intensive activities," eays the IMF, calling for intensifying efforts at privatisation and deregulation.

Ordinary Algeriane are under mounting economic pressure. Pay freezes have led to three consecutive years of decline in real wages. Food subsidies were phased out by the end of 1996, while increases in gas and electricity prices ara being gradually implemented. As part of a new housing policy encouraged by the IMF to reduce acute shortages, the state is to increase rents in public housing by 20 per cent in the first half of this year, and another 17 per cent in the second half.

Although the IMF says that the main risks for the reform programme include the domestic political situation and Algeria's continued vulnerability to oil price flnctuations, it seems to accept the government's assessment that the security situation has improved. Thus it appears to see more risk in the nnemployment and housing problems which "could undarmina tbe needed social consensus in support of the programme".

Restructuring the public sector will, in the short term, put *further strain* on the fragile social equation.

To accelerate the process, the interim parliament earlier this month amended the privatisation law, offering buyers tax incentives and deferred payments and lifting the requirement to keep all the workforce.

But tha domestic savings that can be mobilised for investment are limited. Privatisation would need large-scale foreign investment and expertise, which, ontside the well guarded oil and gas sector, would not be forthcoming without a significant improvement in political risk.

Roula Khalaf

When a kiss is not just a kiss

Extracting a dog-eared business card to hand to a new business contact may one day be unnecessary for hard-pressed executives, and carrying a passport could become a thing of the past.

New wireless technology under development by International Business Machines and on display for the first time this week at the CeBIT IT fair in Hanover could enable people to exchange information with just a handshake – or even a kiss.

IBM's personal area network (Pan) uses the human body itself as a communications medium to swap data which, aside from business card information, might eventually include medical information, computer passwords or the "key" for a car electronic immobilisation system.

The technology, which is still under development, was pioneered initially by scientists at the Massachusetts Institute of Technology and relies on a simple, well-known principle. Since the human body contains water and traces of salts, it is an excellent conductor for electronic currents – and why it is a bad idea to go out in thunderstorms.

What is more difficult is ensuring that data transmission is reliable as well as safe. Thomas Zimmermann and his research team at IBM's Almaden Research Centre in San José, California, have now cracked these problems.

Pan technology works using a mini-portable transmitter no bigger than a matchbox which can be carried in a pocket, for example. The information to be exchanged is stored in a microchip like those found in electronic smartcards.

The transmitter generates a very weak electronic field measuring one billionth of an ampere – less than one thousandth of the current generated by running a plastic comb through your hair.

A second person is equipped with a tiny receiver – in the IBM demonstration this "black box" device is simply stepped on. When the two people shake hands a primitive circuit is completed and the data is transfered from the transmitter to the receiver where it is decoded and can be displayed on a computer.

At present the information which is originally loaded into the microchip using a PC, is transferred at about 2,400 bits per second, the speed of an old slow modem communications device. But the IBM scientists say the theoretical maximum data transfer rate is 400,000 bits per second – fast enough to transfer a whole address book in a few seconds.

Another possible application for the technology would be medical ID cards. People could carry a card equipped with a chip holding their personal data. After an accident a doctor would just have to touch the patient to obtain data on their blood group, allergies or illnesses.

Similarly, computer keyboards could be fitted with sensors which would automatically detect the person using them. Similar authorisation procedures could be used for mobile phones, cars and buildings.

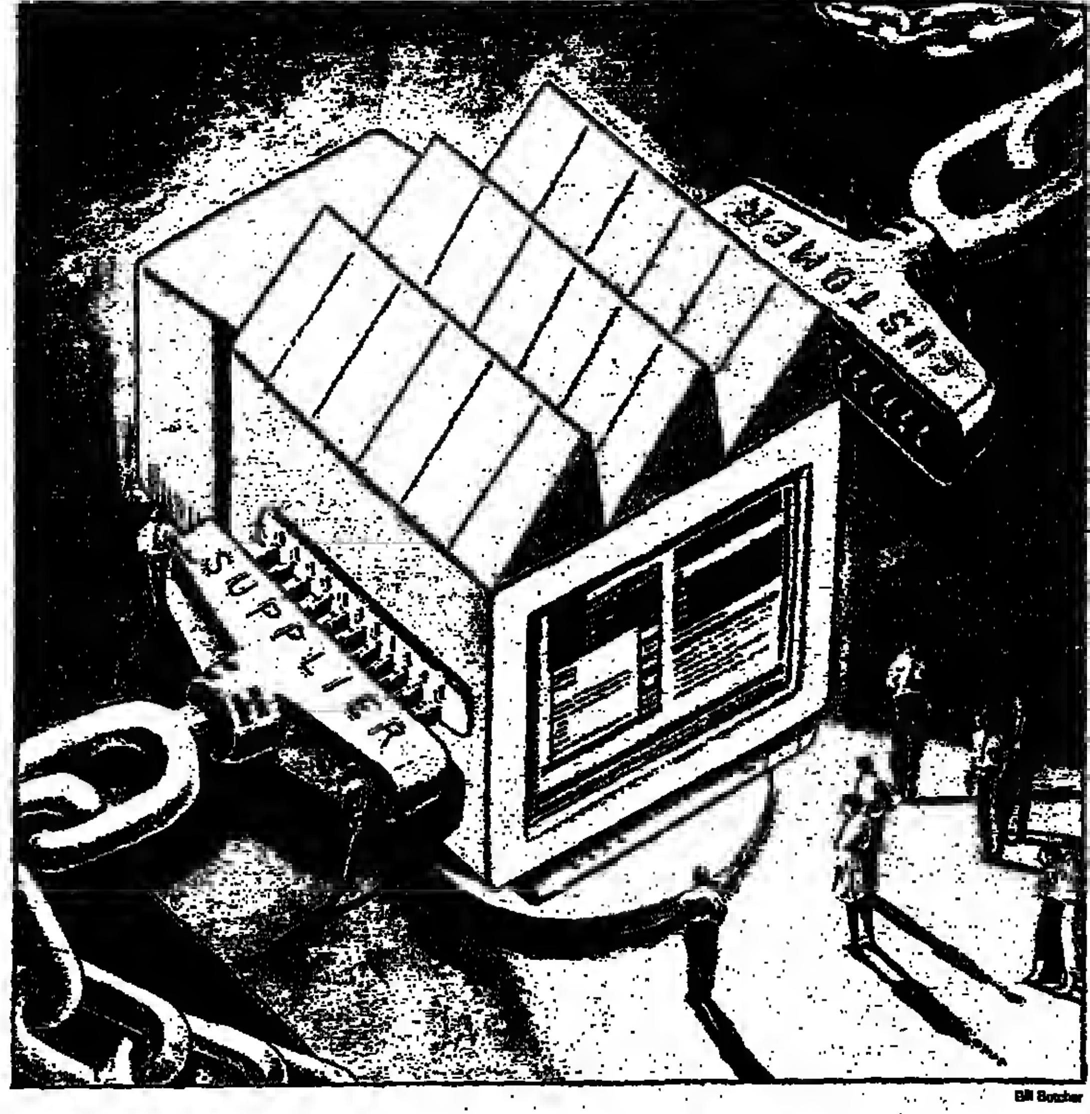
Despite the huge potential, Herbert Kircher, IBM's head of development, points out that Pan is simply "a demonstration of the potential applications of future information technology." Nevertheless, he adds, "I am certain that we are going to use this process in products at some time in the future."

Paul Taylor

Software · **Vanessa Houlder**

The demands of supply

Computer systems to co-ordinate the management of stock can lead to big savings for businesses



Bill Butcher

With airlines competing to win the loyalty of frequent travellers, small touches such as supplying a favourite magazine could make all the difference. Simon Ratcliffe, head of supply chain and systems at British Airways, hopes that within two or three years the airline will be able to tap into its databases to anticipate the needs of its most valued customers.

"If, for example . . . our customer database tells me a valued executive customer is a keen fly fisherman, it will be possible to make sure that a copy of this month's Trout and Salmon is waiting on board for him to read," he says.

Achieving this will be down to supply-chain management, which has traditionally been seen as a mundane, backroom discipline. No longer. Huge cost savings and better customer service can now be achieved from computer systems that co-ordinate every stage of the supply chain from raw-material suppliers to the customer.

BA is overhauling the management of its supply chain in an effort to become more responsive to the needs of individuals.

The project will involve installing systems for demand forecasting, distribution planning and inventory management at 160 locations for 300 suppliers. The improved responsiveness of the supply chain should be accompanied by lower costs. "You normally have to increase cost to give better service. Our product will give higher levels of service at less cost," says Martyn Richards, managing director of Industri-Matematik UK, one of the software suppliers to British Airways.

Ratcliffe expects the £5m investment to be recouped within a year, as more accurate control permits a reduction in stock.

BA is not alone in believing that huge potential savings lie trapped in inefficient supply chains. Better management of the European grocery industry's supply chain could reduce operating costs by $27bn (£16.9bn) a year and inventories could drop by more than 40 per cent, according to research published last year by Coopers & Lybrand for a group of companies including Procter & Gamble, Unilever and Coca-Cola. This could translate into savings equivalent to a 5.7 per cent reduction in consumer prices, worth $33bn, it said.

Efficiency could be improved and costs reduced, said the study, if information were shared between the distribution function of each supplier and the sourcing function of the customer.

Barriers within companies mean that many businesses do not understand the implications of increasing their output or the frequency of their delivery. Suppliers rarely understand the consequences of satisfying short-order demands from powerful customers, according to Arthur Voncheck, vice-president, northern Europe, of Manugistics, a software company. "Most companies have unaccountable and informal decisions. The end result is they make it happen without knowing the cost implications or knock-on effects," he says.

These issues are growing in importance because of the increased sophistication of the systems and software to manage tasks such as order processing, demand forecasting and stock control. For example, electronic data interchange, which transfers point-of-sale information from checkout scanners in stores directly to manufacturers' order entry systems, is becoming increasingly prevalent.

But choosing software is not easy. On offer is a bewildering range of software ranging from small, stand-alone PC-based packages to integrated systems covering manufacturing, planning and scheduling in their entirety.

Integrated systems have become widely accepted among large and medium-sized companies. But Greg Girard, senior analyst for supply chain management at Advanced Manufacturing Research, the Boston-based consultancy, argues thet this is a mistake. The greatest benefits come from "complementary solutions", he says. A number of alliances have been set up to offer combinations of products by such companies as Germany's SAP, Manugistics and i2, a Texas-based software company.

A European version of an initiative designed to help buyers was launched last month. The European Supply-Chain Council has been set up by companies such as Rolls Royce, Rank Xerox and Zeneca to pool their supply chain experiences and develop a supply chain operations reference model, a tool for benchmarking and assessing supply chain software.

"There are 540 software providers doing something different, all saying they are the best," says Neil Martin of Pittiglio Rabin Todd & McGrath, a Massachusetts-based consultancy which co-ordinates the council with Advanced Manufacturing Research. The new model helps a customer talk to the software manufacturer in an informed way, he says.

Another emerging trend is the growing use of networks. The Internet and intranets make it much easier for suppliers and customers to synchronise the supply chain. For example, Manugistics recently launched Intelligent Messenger, which promises to extend the supply chain through the Internet, providing "real-time collaboration and communication".

There are powerful edvantages from new Internet technologies, according to Douglas Brockway, vice-president of Mercer Management Consulting. They allow companies to automate their transactions, communicate directly and use one another's applications systems and files.

Despite the obvious attractions of the seamless flow of information along a supply chain, there are some barriers to its adoption. With retailers already concerned about the implications of electronic commerce, they may be resistant to sharing valuable customer information with manufacturers. Conversely, suppliers are concerned to limit their dependency on their customers which may be a consequence of closer partnership.

Yet the potential benefits of cost savings and improved responsiveness are persuasive, according to the PRTM consultancy. A benchmarking study it conducted last year showed that the gap between the supply-chain costs of the average and the best-managed companies was equivalent to between 3 per cent and 7 per cent of revenues.

Neil Martin of PRTM says no company should ignore the scope to improve the management of its supply chain. "Any organisation that doesn't go down that route is missing the boat – big-time."

Information Technology

● The FT's review of Information Technology appears on the first Wednesday of each month

Stitching a seamless Internet link

Mobile computing may start to live up to its name. Compaq, the US computer manufacturer, and Ericsson, the Swedish telecommunications equipment maker, are working on joint products which would allow a laptop user to connect to the Internet without fiddling around with cables.

At present, a laptop user typically has to search for a phone socket through which to connect to the Internet or another electronic network. Alternatively, several mobile phones come with a cable leading to a PC card which slots into the laptop and provides mobile data communications.

The new collaboration between Compaq and Ericsson promises "seamless" solutions. The companies are not saying what this means, but a possibility is a laptop with built-in mobile communications based on the GSM standard.

The first products, likely to carry the brands of both the developers, are expected to emerge in the second half of the year.

Other computer manufacturers are believed to be examining similar products, but Compaq and Ericsson are the first to unveil their plans.

Ericsson, Sweden: Internet http://www.ericsson.se; tel 46-70-590-9900

Surfers set to spread the word

Internet users, who typically click with a computer mouse on underlined text to navigate, will be able to speak their instructions using new software from International Business Machines.

VoiceType, the company's voice recognition application, now works with Netscape Navigator 3.0, the latest version of the most popular Internet browser.

The software automates tasks such as typing long website addresses, search criteria, and navigating between sites.

In VoiceType Connectioo for Netscape, users can choose from a base set of approximately 20 commands, including "go to", "open" and "scroll down". A page tagged with a "voicemark" can be retrieved by saying the title.

VoiceType, which includes a 22,000-word dictionary, also allows users to dictate electronic mail and other documents.

IBM, US: e-mail scottker@us.ibm.com; tel US 914 766 1463

Watching brief

Online coins score for sport site

Electronic cash has made a move towards the mainstream with the decision by one of the leading Internet entertainment sites to accept payments through an electronic coin service as well as by credit card.


Michael Jordan: Net player

ESPNET SportsZone, the leading sport website, is linking with CyberCash, a developer of services for secure financial transactions on the Internet, to allow access to its premium content on a daily basis.

Users can already subscribe to SportsZone by paying $4.95 a mouth through their credit cards. But SportsZone wished to generate additional revenue by tapping more casual customers.

Through its agreement with CyberCash, ESPNET SportsZone will provide single-day access to its premium content for as little as $1 per day, using CyberCash's new electronic coin service – CyberCoin.

The service enables cash payments for Internet transactions, ranging from 25 cents to $10, with funds drawn from a consumer's bank account or credit card. Designated funds are stored in CyberCash's Internet Wallet.

CyberCash, US: tel 212 704 8155; web: http://www.cybercash.com

Banks lock up Net payments

Banks are rushing to adopt Secure Electronic Transaction technology, a standard being promoted by credit card companies Visa International and Mastercard International for making high-security payments over the Internet.

Bank of Ireland is to "go live" with payments via the technology in May, saying it is the first European bank to commit to start the system.

In France, a consortium of banks chose the software which they will use for encrypted transactions. The group, e-COMM, which includes BNP, Société Générale and Credit Lyonnais, said it had selected IBM's CommercePOINT software, and that a pilot project will start later this year.

Goods can already be purchased by credit card on the Internet, but most vendors rely on manual authentication of credit-card holders.

The new software being developed around the SET standard promises automatic authentication, as well as the use of smartcards which plug into a computer reader and validate the identity of the purchaser.

Visa International, UK: tel 0171 937 8111; fax 0171 937 0877.

Curbs on encryption cracked

US restrictions over the export of 128-bit key encryption technology remain a source of frustration for European and other organisations which need the highest security for their Internet and intranet applications.

Now Siemens Nixdorf Informationssysteme, part of the German Siemens group, has developed a new product called TrustedWeb, which incorporates a 128-bit public key/private key developed by Dublin-based Systems Engineering – a joint venture between SNI and its parent.

"TrustedWeb is an independent European product and hence is not subject to the export restriction imposed by the US government in relation to encryption software," says Siemens Nixdorf.

The software, which comprises three components, is expected to be used with conventional firewall software both to protect corporate intranets against unauthorised external access, and to prevent internal access to confidential Web pages or application data.

Siemens Nixdorf Ireland will market the software worldwide over the Web.

TrustedWeb: http://www.TrustedWeb.com

Watching Brief is compiled by Nicholas Denton: e-mail infotech.page@FT.com; fax UK 0171 873 3196

Ian Davidson

Polite hypocrisy

Turkey's quest to join the EU and the crisis in Albania have highlighted the EU's disarray over foreign policy

Cynical observers have long mocked the inability of European Union governments to get their foreign policy act together. In the last few days they have had two new cases of European disarray to sneer at.

Case one concerned the controversial question of Turkey's application to join the EU, on the table since 1987, but still not accepted.

At the beginning of the month, a summit meeting of the leaders of six centre-right (Christian Democrat) governments, including Chancellor Helmut Kohl of Germany, declared thet Turkey could not be accepted into the EU.

They gave the impression that their positioo was based on the grounds either that Turkey is not a European country, or that it is an Islamic nation. This implies a rejection that is unconditioual and unchangeable.

This provoked predictable uproar in Ankara and protests from Washington which wants to keep Turkey in the western camp. So last weekend, the 15 foreign ministers of the EU did a complete about-face. They declared that, of course, Turkey could be considered for membership of the European Union, on the same terms as the 10 candidates from eastern and central Europe which are due to begin membership talks next year.

At that same meeting, the foreign ministers gave a second display of confusion and disarray, in their contrasting reactions to the chaos in Albania.

France, Italy and the Netherlands were for dispatching a significant force to help restore order. But the UK and Germany were opposed to any military action. So the EU ministers settled for almost the smallest possible response to the crisis: the despatch to Tirana of a little diplomatic mission of advisers.

The 1992 Maastricht treaty laid dnwn, as an objective, that the EU would develop a common foreign and security policy, leading to a common defence policy. But nothing of consequence has been achieved in this area so far, and these two recent incidents seem only to confirm the EU's lamentable reputation for weakness and confusion in foreign policy.

And yet it must be a mistake to set too much store by activism for activism's sake. Some critics have been quick to jeer that Europe's indecision towards Albania looks exactly like a re-run of its earlier vacillation in the face of the war in Bosnia-Hercegovina. Surely this time, they say, Europe ought to be able to show a bit more spunk, and get a grip of the disorder in its own backyard.

To me, the two crises look wholly dissimilar. At the outbreak of the civil war in the former Yugoslavia, it might have been possible for the EU governments to have suppressed the conflict through military intervention. Whether it would have been wise to have tried is another question; but at least that was a relatively organised military conflict to which it might have been possible to offer an organised military response.

The crisis in Albania is different. The problem is not civil war, but the disintegration of governmental authority – so it is not clear what an external military force could be sent to do. The EU foreign ministers have so far avoided taking a spectacularly wrong decision – though it is a pity they could not resist the temptation to display their disagreements in public.

The Turkish question is more complex and more difficult. During the cold war, Turkey established a strong claim to be part of the western complex of nations: it has been a member of Nato since 1952 and became an associate of the then European Community in 1963.

But there are two sets of obstacles to Turkish membership of the EU. The first is practical: member states are already quaking at the difficulties of ebsorbing the (mainly small) countries of eastern and central Europe.

Turkey is not just very poor and very backward; with 62m people, it would be much harder for an EU of 373m to digest, economically or institutionally.

The second obstacle is political. Some people debate the geographical question whether Turkey is really part of Europe; others worry that it is a Moslem country; but this is missing the point. The real question is: does Turkey resemble and behave like a west European country?

The answer is unmistakable: in terms of its democracy, its human rights, its treatment of minorities and the role of the armed forces, it functions eccording to quite different norms.

In combination, the practical and political obstacles mean Turkey cannot become e member of the EU soon. The Christian Democrat leaders were merely saying nut loud what everyone already knows.

But last weekend's decision by the 15 foreign ministers to encourage Turkey's aspirations was not just an exercise in polite hypocrisy; they were also recognising that there is no point in simply making a public announcement that Turkey cannot join the EU. This angers the Turks, quite uselessly, without addressing any of the large strategic problems in which the EU and Turkey are unavoidably linked.

Turkey occupies a key position at the crossroads between the Balkans, the Caucasus and the Middle East and that must be reflected in EU strategy. Ankara has threatened to block Nato enlargement if it does not get satisfaction on EU membership. Brussels cannot proceed with planned membership negotiations with Cyprus, without dealing with the fact that half the island is occupied by the Turks.

Cynics will no doubt continue to mock the EU's disarray over foreign policy. But circumstances will compel the EU to try harder; one day, perhaps, it will do better.

Albania in chaos: no case for EU intervention

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be ... to 'fine'). e-mail: letters.editor@ft.com Published letters are also available ... Translation may be available for letters written in the main ...

Uganda must be granted debt relief

From Mr Kevin Watkins.

Sir, Your report ("Setback for Uganda debt relief hopes", March 14) rightly emphasises the huge social costs of the International Monetary Fund and World Bank boards' delay in dealing with Uganda's debt. That delay will cost lives and calls into question the political commitment to deal with the debt crisis of lower income countries.

Delay on debt can be measured in cold financial terms. It will cost Uganda some $40m in potential savings on debt relief next year, causing a serious setback for its economic reform programme which has achieved spectacular results in recent years.

However, in less visible terms it will undermine the social investment needed to combat child mortality rates: one child in five does not reach its fifth birthday. It will also be damaging in lost opportunities for human development. Thousands of children, especially girls, will not be going to school this year while the IMF and World Bank boards continue to prevaricate. It is difficult to square World Bank president James Wolfensohn's commitment to expand educational opportunity with the boards' lamentable decision on debt.

Uganda has been the donors' jewel in the economic reform crown. Holding back on debt relief not only sends the wrong political signal to Uganda, it will also have a huge impact on those heavily indebted poor countries in Africa and elsewhere which are carrying out painful economic reforms. The message seems to be that Africa's debt crisis must be left to fester for another seven to 10 years.

In short, this decision is unacceptable and has to be reversed. A completion date should be set for Ugandan debt relief after this spring's IMF/World Bank meeting.

Kevin Watkins,
policy adviser,
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UK

A better Britain confronts a bitter Britain

From Mr Peter Thal Larsen.

Sir, Could you let us know where Michael Prowse has been for the past few months? His impressions since his return from the US ("Back home in a better Britain", March 15/16) suggest he has passed the time wearing a virtual reality headset supplied by Conservative Central Office.

He has obviously not had to seek medical treatment on the National Health Service. Neither can he have tried to find e decent state school for his kids. He cannot have been near a university to experience the "huge expansion" that has taken place without a similar increase in funding.

His part of London is clearly free of homelessness, poverty and crime. (Or could it be that, because these problems are so much worse in the "dynamic, entrepreneurial" US, he does not think them worth mentioning?) And I am sure most Londoners would love to know what reliable part of the London Underground he uses, and at what time of night he ventures on to the M25 London orbital motorway.

Peter Thal Larsen
18 College Heights,
246 St John's Street,
London EC1V 4PH, UK

From Mr Gianni Manca.

I am an Italian and have worked and resided in the UK for the last eight years.

I read with great interest Michael Prowse's article in last weekend's FT and unreservedly share his views. No one can doubt that 18 years ago the UK was a shambles and on e declining path. Thanks to Thatcher radicalism and Major consolidation it now unquestionably has the strongest economy and is the best run country in Europe, and arguably in the world.

The fact is that voters have very short memories and a substantial number of them (those up to the age of 35) have never known the desperate straits in which this over-taxed and strife-torn country was 20 years ago. I can only hope that they will all see the light on election day.

Either this or, paradoxically, let me hope that Mr Blair will be voted in with a healthy majority which will not make it necessary for him to compromise too much with his vociferous and numerically substantial leftwingers.

Gianni Manca,
Piergrossi Villa Manca Graziadei,
5 Coates Crescent,
Edinburgh EH3 7AL, UK

Jobs will go in anti-dumping drive

From Mr Peter Booth.

Sir, Your article by Jenny Luesby on anti-dumping action taken by the European Commission, ("Brussels move on dumping a 'violation'", March 17) against imports of unbleached cotton fabrics is right to draw attention to the questionable nature of the Commission's action and its methods of trying to secure a majority vote ahead of schedule.

I wonder how much its premature timing is affected by the political events taking place in the UK this week, perhaps in the hope of passing through these damaging duties when the UK's eye is off the ball.

Quite apart from the technicalities as to whether this action is in violation of the World Trade Organisation rules and procedures, the reality is that a number of dyeing and finishing businesses in the UK are already suffering as a result of the six-month provisional anti-dumping duties imposed last November. The Transport and General Workers Union already has a list of seven companies directly affected, and no doubt many others will be added should the duties be extended.

If member states are not alive to the threat to jobs, and this action is ratified and put into place for a five-year period later this week, then thousands of UK jobs will be lost as a result of European bureaucratic bungling. Throughout this fiasco we have called for a wider view of the total trade implications to be taken into account, and the impact that any action would have in regions already suffering from higher than average levels of unemployment.

We hope it is not too late for sense to prevail and for the interests of all the sectors in the textile pipeline to be balanced against those of one specific sector.

Peter Booth,
national secretary, textiles,
Transport and General Workers Union,
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BD1 2QB, UK

Europe cannot blame Bundesbank

From Mr Peter Dixon.

Sir, While I may have agreed with the arguments of Professors Modigliani and Baldassarri ("A euro minus the D-Mark", March 14) had the article appeared in the summer of 1993, I am no longer sure that we can continue to blame the Bundesbank for Europe's economic ills.

Looking back over a medium-term perspective, it is true the Bundesbank was slow to relax monetary policy, which made a big contribution to the severity of the European recession in 1992/93 and which in turn has left Europe with more than 18m unemployed.

However, to suggest that "the Bundesbank could quickly reduce the jobless total in Germany – and in other European countries – by adopting a less restrictive monetary policy" flies in the face of the facts.

Since August 1992 the German discount rate has fallen from a postwar high of 8.75 per cent to a postwar low of 2.5 per cent. In real terms the rate is now at its lowest since spring 1963. During this period the level of unemployment has climbed by almost 1.5m (a dip in 1994 notwithstanding) to more than 4.3m. Admittedly, the real effective exchange rate is still some 5 to 10 per cent stronger than in summer 1992, but it has actually been depreciating since early 1995.

Given this background it is hard to argue that Europe's problems are caused by excessively tight German monetary policy. Instead, restrictive fiscal policies across the continent and structural factors, such as high payroll taxes, are playing a bigger role in hampering growth and employment. It was European Union governments which signed up to the Maastricht treaty in 1991, and it was they that voluntarily donned the hairshirt of fiscal restraint rather than have it forced upon them by the Bundesbank.

Peter Dixon,
Königslacher Strasse 23,
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Germany

No rebound in Italian deficit after Emu

From Mr Fabrizio Galimberti.

Sir, Martin Wolf ("Emu's hidden strains", March 11) reports a remark by Prof Ronald McKinnon: Emu's great achievement has been to force politicians in countries such as Italy to make necessary fiscal corrections. The implication drawn by Mr Wolf is that "quite reasonably, confidence in the continuation of such painful fiscal adjustment after monetary union must be small".

Prof McKinnon's statement is largely true (even if more than half the remarkable nine-point improvement in the ratio of the primary balance to gross domestic product since the low point of 1985 took place before the Maastricht treaty was signed). On the other hand, Mr Wolf's implication is quite unreasonable. The view that once Italy is in Emu and Maastricht's strictures are out of the way, the deficit will take off again ignores the fundamental difference between total and primary balance.

The latter is a surplus, and one of the highest in the world. With monetary union, the interest burden will decrease sharply, the fiscal position will become sustainable (no need for more "painful fiscal adjustment") and, in any case, Maastricht's strictures will have been replaced by the commandments of the "stability pact".

Italy's policymakers will still have a lifetime of work to do, as the quality of both taxes and primary expenditures is unacceptably low. But after Emu, the problems will be ones of quality, not quantity.

Fabrizio Galimberti,
12 Kooyongkoot Road,
Hawthorn 3122,
Australia

Feline brainpower is no match for robots

From Mr Aristades Pappidas.

Sir, Andrew Baxter, in writing about robots in his "Minds of the future" article (March 11), quotes e Prof Warwick who says: "Within five years they [robots] will have the brainpower of cats."

As someone who has had cats as wonderful pets for 41 years, I would like to ask Prof Warwick a question. What brainpower?

Aristades Pappidas,
74 Essex Street,
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US

Politics is not business leaders' forte

From Lord Harris of High Cross.

Sir, I have high respect for Sir Colin Marshall and many of the others calling for what in my view amounts to lowering our guard on Brussels (Letters, March 11). But then I knew their predecessors better in the 1960s and 70s and respected them no less – as businessmen.

My quarrel with the dubious Confederation of British Industry consensus now, as then, is that first-class businessmen can be rotten judges of politics. Dare I recall their well-orchestrated enthusiasm for Selwyn Lloyd's pet Neddy, or George Brown's phantom National Plan, or Edward Heath's ephemeral prices and incomes policy, and many lesser fads and fancies. Those of us at the Institute of Economic Affairs and beyond who felt driven to persist with principled doubts – as do many Eurosceptics – were equally denounced for confrontation, not only by Mr Blair's predecessors but, alas, by Sir Colin Marshall's.

It scarcely helps reasoned discussion for Sir Colin and co to present the choice as "the path of isolation" versus "the heart of Europe".

Let me, therefore, pose three questions. Are Switzerland, or Norway, or the US "isolated" by being outside the European Union? Since Britain at its best has led the way in trading with the whole world, might not the current obsession with the EU prove an example of business short-termism? To avoid missing out on the exploding markets of Asia, will Sir Colin – or his successor – soon be proposing e shift to the heart of China?

Lord Harris of High Cross,
5 Cattley Close,
Wood Street, Barnet,
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Big problem

From Mr Harvey Cole.

Sir, You comment on figures showing a sharp increase in the proportion of Americans classified as obese ("Weighty issue for Americans", March 15/16). But statistics for the UK indicate that the share of its population similarly overweight is both larger and growing more rapidly – with particularly troubling emphasis on the young.

Harvey Cole,
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ARTS

Television/**Christopher Dunkley**

The great survivors

Television, we are told, is a fleeting thing. "New" is its hy-word. The images are transient, programmes come and go, the medium chews up talent, spits it out, and switches to the next fashionable flavour. When my predecessor, T.C. Worsley, gathered his FT columns into a book, the title he chose was *Television: The Ephemeral Art*. Yet when that book was published in 1970 the BBC's astronomy programme, *The Sky At Night*, had already been running for 13 years. It started before Sputnik 1 went up, and today, 40 years later, with the moon landings a part of history, it is still going strong. Moreover the presenter is still Patrick Moore, the man who presented the first edition and who appears to work today as he always has – full of passionate eloquence, in well-constructed sentences – without autocue.

Given all the talk about mutability and impermanence, it is astonishing how many of the programmes that were in the schedules 25 years ago are still with us today. *The Sky At Night* is not the oldest. That title goes to *Panorama* which started in 1953 and is therefore 44 years old. True, it began as a fortnightly magazine programme which included criticism of the arts from a regular team, but its chief interest was always current affairs, and it has been in its single-subject weekly format for a long time now. BBC Television News is a year younger than *Panorama*, and *This Is Your Life* has been with us, on and off, on ITV and BBC, for 42 years.

Next on the list (compiled with the help of the new edition of Tise Vahimagi's excellent book, *British Television*, OUP) is the 41-year-old *What The Papers Say* . . . or it would be next, assuming it was still alive. It has always been made by Granada and was, for most of its life, shown on ITV. Then, shortly after the Thatcherite broadcasting shake up, it became the first ITV programme to be commissioned by a BBC channel. Unfortunately BBC2 has proved anything but a faithful friend. The programme has been pushed around the schedule, sometimes towards the middle of the night, run in short series, cut down from 15 minutes to 10, and now, just after the annual WTPS Awards, has ominously disappeared altogether.

The Sky At Night comes fifth, and then the BBC's children's magazine programme, *Blue Peter*, which began in 1958 and is still watched in the Dunkley household even though the children for whom it was originally switched on every Monday afternoon have set up homes of their own. It seems that the ironing cannot be done without it. Seventh is the Saturday afternoon sports programme, *Grandstand*, and eighth is *Coronation Street* which was launched in 1960 and is still expanding, having added a third weekly episode in November. Ninth is the programme of listeners' letters, *Points Of View*, which specialises in presenters called Robinson – Robert, Kenneth, and Anne – though Barry Took stood in for a while. Number 10 on this list of greybeards is *Songs Of Praise*.

It is hardly surprising that seven of these 10 oldest programmes belong to BBC1, since that is our oldest channel, nor astonishing to note that they include standard items which virtually any general interest network would be likely to include: news, sport, children's magazine, and so on. This does not invalidate the argument that television (British television, anyway, yet that of other countries too, judging from what I have seen abroad) is much less fickle and more resistant to change than received wisdom would have us believe. However, the more interesting long term survivors are those programmes which are not predictable, not common to every major general interest network.

It is on these grounds that the longevity of programmes such as *The Sky At Night*, *This Is Your Life*, and *What The Papers Say* is so interesting. There are even more of them in the next ten titles (Nos 11 to 20 in the Great Survivors list): *University Challenge*, *World In Action*, *Top of The Pops*, *Horizon*, *Match Of The Day*, *Tomorrow's World*, *Jackanory*, *News At 10*, *Omnibus* and *Dad's Army*, assuming you can count *Dad's Army*, which was only in production between 1968 and '77 but, thanks to repeats, scarcely seems to have been off screen for nearly 30 years. It is not hard to understand a daily news programme or a soap opera having a long life, but why a programme about weird inventions (*Tomorrow's World*)? Why a series in which a man with huge loose suits and wonky eyebrows sits in a tiny studio and talks intensely about black holes (*The Sky At Night*)? Why a general knowledge quiz between college students (*University Challenge*)?

The answer, surely, is that all these series, predictable and unpredictable, are alike in one respect: they are classics – not (or not necessarily, anyway) in the sense that Beethoven's Ninth is a classic, but more in the sense that the Harris Tweed sports coat and the Bic ballpoint are. They are supremely well suited to the purpose for which they were designed. I have never liked *This Is Your Life* which, too often, seems toe-curlingly embarrassing: in last week's programme they came perilously close to damning Richard Whiteley with faint praise, and this week's, with Sian Phillips, looked like a luvvie rally organised by Equity. Yet if what you want is a half-hour blog for minor celebrities it would be difficult to think of a better suited vehicle.

The same is true of *What The Papers Say*. Obviously television has been hopelessly inadequate as a public watchdog on the press (compare and contrast the space, money, effort, staff that newspapers put into the opposite function). But if an opinionated 13-minute weekly roundup delivered by a Fleet Street journalist is all that television is willing to sustain – like getting actors to write theatre reviews – then *WTPS* is (was?) a simple classic that could hardly be bettered. *Songs Of Praise* with its outside broadcast cameras attracting the largest congregation in the history of any given church, reminds metropolitan cynics that in the age of virtual reality and sheep cloning there is still a world of Women's Institutes and flower rotas out there.

Indeed, this spine of ancient titles running through the television schedules is a vivid illustration of the resilience of British institutions and lifestyles. *This Is Your Life* with its sentimentality, hero worship and love of family will still be there long after television's current crop of revisionist biography series (*Secret Lives* and so on) have been forgotten. The country is dotted with eccentrics in anoraks and wellies poking their telescopes out of their garden sheds every night to gaze out beyond Alpha Centauri in the hope that their name will one day be given to a spinning gas ball that ceased to exist before the birth of Christ. I back Patrick Moore and *The Sky At Night* to outlast The Spice Girls and *The Girlie Show*.

Theatre/**Sarah Hemming**

Welsh spin on a black comedy

Some of the new Welsh drama I have encountered recently has had a wildly surreal streak that is strangely invigorating. So it proves with *Badfinger*, Simon Harris's oddball black comedy which launches the "Four Corners" season at the Donmar Warehouse.

Badfinger, performed by Thin Language Theatre Company, is bizarre and playful, at once enormously derivative and quirkily original. It is indisputably Wales on stage, but it is a Wales portrayed in high relief through a mishmash of styles that horrows unashamedly.

Harris has made no secret of the fact that he is influenced by David Mamet and *Badfinger* has much in common with *American Buffalo*. It is set in the seedy backroom of a junkshop; the characters are all male low-lifers; the action consists largely of shifts of power between them as revelations are made and the dialogue makes virtuoso use of bad language.

But the play also owes something to the thriller genre and could even hark back to Ben Jonson's comedies, with its lurid portrayal of a group of needy misfits trying to hold their own. And Harris puts an enjoyable Welsh spin on the situation.

Many of the plot twists have to do with the exceedingly wet weather and there is a lugubrious atmosphere to the proceedings that even the abundant black humour and Michael Sheen's cod melodramatic effects – thunderclaps, flashes of lightning and so on – do not dispel.

Centre of the play is Meyrick, the jumped-up owner, a middle-aged man who is a strange combination of the savage and the sentimental (a fine, tense performance from Robert Blythe). He and his simpleton sidekick Johnnie (Jason Hughes) are visited by a lanky loaner called Speed (Rhys Ifans, restless and compelling). Speed is busy expounding his theories on chance, chaos and logic, when a drugged youth flings himself and his problems through the shop window.

What is Meyrick's relationship to this youth? Does he have a dark secret? Speed attempts to hlackmail the truth out of him, hnt is interrupted by the arrival of another unsavoury character: a hihle spouting thug sent to recover money for the local loan shark.

As the play spirals downhill into despair, we realise that the fantastic style is just a screen. In fact the characters are just four of life's losers trapped into dependence; Harris draws a world where even wit and talent can be suffocated by social circumstance.

The play's biggest flaw, however, is that its impact is lost in the telling. The very twists and turns and word play that make it superficially entertaining also mean that it begins to sag and lose momentum. After a while you begin to sympathise with Meyrick as he urges Speed to "get to the point". Sheen's production keeps on springing the surprises and maintains the suspense, sending the nervy control ricocheting from one character to another, but it cannot save the play from its own excesses.

That said, there is much to enjoy here. A pair of pruning shears and a willingness to shrug off *some* influences next time might reveal in Harris an exciting new Welsh voice.

Donmar Warehouse, London WC2 to March 22 (0171 369 1732).

Shifts of power between low-lifers: Rhys Ifans in 'Badfinger' Alastair Muir

Opera in Sydney/**David Murray**

Merged talent

Sydney used to have The Australian Opera, and Melbourne the Victoria State Opera. Recently they merged to become Opera Australia, amid the usual promises of sensible economies and higher standards. When they counted their pennies again last month, however, what was believed in October to be a manageable deficit of A$1m-plus had unaccountably grown to A$3m-plus. The instant result was the cancellation of the Melbourne winter season. Melbourne is cross, though Opera Australia's new management is pleading that Melbourne audiences were never that good in the winter.

Meanwhile the Sydney summer season has gone down well, and I caught the fag-end of it. By then, two of the three principals in a much-praised revival of *La Traviata* – Elijah Moshinsky's 1994 production – had been supplanted by newcomers who did nothing for the drama. The Chinese Alfredo, young Du Jigang, was eerily inscrutable from start to finish, in surrealist Italian, and a metallic light-heroic timbre seemingly learned from ancient 78s. Young Richard Alexander stamped his jealous Baron, who gets all of about five minutes to sing, with five times more character.

As Germont-the-heavy-*père*, Henry Ruhl had appealing, lyrical moments in his middle register, and the mien of a kindly, ineffectual uncle. With nobody to play to, Cheryl Barker's valiantly sung Violetta emoted in a void, sometimes to fine effect and sometimes not. Carlo Felice Cillario, impeccably stylish in both of Verdi's act-preludes, was too solicitous for his singers, often accelerating a phrase for one and braking it hard for the other within a single duet: obtrusive, and distracting.

Michael Yeargan's sumptuous sets, more acutely sensitive to the period and the situations than any I recall, were quite splendid, and probably accounted for some of the deficit. The pleasantly old-fashioned sets for Donizetti's *La Fille du régiment* were brought back from a 1986 staging which let Joan Sutherland reappear in a favourite role, but Joseph Ward has produced the opera afresh. Not quite the *mot juste*; but this version must at least have been different.

For it was built around Emma Lyson's bright, energetic, killingly winsome Marie, the tomboyish *vivandière* of the title; whereas Dame Joan was enacting the role in her 60th year. Lyson has terrific attack, muzzy French, an intermittent vagueness about pitch and a weakness for OTT mugging that should be put on a muzzle at once. Her tenor was the American Bradley Williams, small-voiced but elegant, whose very "correct" French was a rebuke to everybody else's.

As a show, *Die Fledermaus* won hands down. Lindy Hume's effervescent production, which began at the West Australian Opera in Perth last year, transfers the action to 1930s Manhattan: not implausible, and it provided an excuse for more stunning sets, this time by Richard Roberts. The Eisensteins' penthouse contained a Brancusi and a Léger, with the Chrysler building looming outside.

If the leading ladies belted out their numbers without the cosy Viennese nuances that lend an extra dimension to the music, the Eisenstein and Falke were clever – the one an urbane comedian, the other distinctly sinister. The American conductor Dobbs Franks supplied strong professional drive, and we had an uncanny Price Orlovsky from Suzanne Johnston. I expected a Marlene, but no: Johnston was pure Garbo *en travesti*, right down to the quirky little smile. She lit up what was anyway the snappiest, least indulgent *Fledermaus* I've seen in years.

Theatre/**Ian Shuttleworth**

Takes on the cinema

Forkbeard Fantasy (alias the Brittonioni Brothers) have a playful love of film coursing through their veins; cut them, and they would bleed celluloid. It is natural then, that they should have created a show for the Century of Cinema celebrations in their characteristic style which combines film, live action and special effects somewhere in the region between Ray Harryhausen and Heath Robinson. The centenary has passed but the show – like the huge caryatids which support the crumbling, sinister Empire Theatre, survives.

Tim and Chris Britton and Edmund Jobling are basically big kids with a huge toybox. *The Fall Of The House Of Usherettes* is a work of childish silliness mixed with an adult taste for referentiality, nodding as it does to films ranging from *The Shining* to *Gone With The Wind* and directors from Blake Edwards to Tarkovsky.

As the grasping Bernard von Earlobe attempts to steal the world's only remaining liquid film archive from Roderick Lilyhair de Usherette and his three weird sisters (cue running *Macbeth*-related gags), an hour and a half ensues of chase sequences in which characters disappear behind a projection screen to pop up on film, intruders are imprisoned in slapstick film loops, towering monsters and improbable (re)animation sequences all come thick and fast.

Technically, the Brittons and their co-designer Penny Saunders are immensely skilled – although they relish the illusion of shambles, the reality is plainly one of precise orchestration.

The spirit of the show, one of daft but knowing fun, is also enormously appealing. Things fall apart, however, in the narrative aspect; it becomes progressively more difficult to maintain a coherent line through the warped, irrepressible ideas being pulled out at high speed like the flags of all nations from a magician's hat.

After a certain point one simply has to trust that all these frayed threads will be brought together by the end, and they are not; the final barrage of special effects constitotes a conclusion rather than a resolution. The final destination of the piece, and indeed the ronte travelled, are subordinated to the rollercoaster loops and twists of the ride. One cannot shake the niggling suspicion that it ought to be more thoroughly enchanting than it is.

Lyric Studio, Hammersmith London W6 until April 5 (0181-741 2311).

INTERNATIONAL

ARTS GUIDE

AMSTERDAM

EXHIBITION
Amsterdams Historisch Museum
Tel: 31-20-5231822
● Peter de Grote en Holland: exhibition bringing together objects collected by the Russian Czar Peter the Great (1672-1725) during his stay in Holland 300 years ago. Included are a number of paintings by 17th century Dutch masters, scientific instruments and personal belongings of the Czar; to Apr 13

■ BARCELONA

EXHIBITION
Fundació Antoni Tàpies
Tel: 34-3-4870315
● Ana Mendieta: retrospective of work by the Cuban artist whose installations and sculptural pieces examined the female body and perception of it as a passive victim of crime and violation and as a sacred myth. Given the ephemeral nature of much of Mendieta's work the exhibition largely consists of film and photographic material, although three of her installations have been re-created;
to Mar 30

■ BERLIN

DANCE
Deutsche Oper Berlin
Tel: 49-30-3438401
● Ballett der Deutschen Oper Berlin: perform 'Dream Time' to music by Takemitsu, choreographed by Kylian, 'In the Middle Somewhat Elevated' to music by Willems, choreographed by Forsythe and 'Heimkehr' to music by Mahler, choreographed by Seyffert; Mar 20

■ CAMBRIDGE

EXHIBITION
Fitzwilliam Museum
Tel: 44-1223-332900
● *Rembrandt and the Nude*: this is the second in a series of exhibitions devoted to the museum's collection of Rembrandt etchings; to Mar 31

■ COLOGNE

JAZZ & BLUES
Kölner Philharmonie
Tel: 49-221-2040820
● WDR Big Band: conducted by Bill Dobbins perform jazz music; Mar 22

■ DUBLIN

CONCERT
National Concert Hall
Tel: 353-1-6711888
● Irish Chamber Orchestra: with conductor Fionnuala Hunt performs works by Bennett, Walton and Dvorák; Mar 23

■ GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tal: 44-141-3326633
● Royal Scottish National Orchestra: with conductor Thomas Dausgaard and the Royal *Scottish National Orchestra* Chorus perform works by Lutoslawski, Szymanowski and Tchaikovsky; Mar 20

■ LONDON

CONCERT
Barbican Hall
Tel: 44-171-6384141
● Orchestre Revolutionnaire et Romantique: with conductor John Elliot Gardiner and perform works by Schumann; Mar 21

Royal Festival Hall
Tel: 44-171-9604242
● The Rake's Progress: by Stravinsky. Conducted by Andrew Davis and performed by the BBC Symphony Orchestra and the BBC singers. Soloists include soprano Joan Rodgers, tenor Barry Banks and bass Alastair Miles; Mar 22

EXHIBITION
Victoria & Albert Museum
Tel: 44-171-9388500
● In Pursuit of Old Masters: at the end of 1994 the Victoria & Albert Museum received more than 300 Arundel Society watercolours in a transfer from the National Gallery. This display follows tha history of the Society and includes prints in line, colour and wood engraving: to *Mar 30*

THEATRE
Lyttelton Theatre
Tel: 44-171-9210631
● *The Homecoming*: by *Pinter*. Directed by Roger Michell. The cast includes Keith Allen, David Bradley and Lindsay Duncan; Mar 19, 20, 21, 22

■ LUXEMBOURG

CONCERT
Théâtre Municipal
Tel: 352-470895
● Orchestre Philharmonique du Luxembourg: with conductor Sakari Oramo and cellist Lluis Claret perform works by Stravinsky, Prokofiev and Nielsen; Mar 20

■ LYON

EXHIBITION
Musée des Beaux-Arts de Lyon
Tel: 33-4-72 10 17 40
● Kees van Dongen, l'oeuvre sur papier (1895-1914): this exhibition, the first devoted specifically to van Dongen's works on paper, features 90 drawings, gouaches and *watercolours, as well as over a* dozen of the artist's paintings and 25 works by friends and contemporaries, including Steinlen, Signac, Picasso, Derain, *Toulouse-Lautrec, Marquet and* Matisse; to Apr 6

■ MADRID

EXHIBITION
Museo Nacional Centro da Arte Reina Sofia Tel: 34-1-4675062
● *Vicente Rojo: retrospective* exhibition featuring 94 paintings by the Catalan artist, produced between 1960-1996;
to Mar 24

■ NEW YORK

ART & ANTIQUE FAIR
7th Regiment Armory
Tel: 1-212-4720590
● The International Asian Art Fair: the second International Asian Art Fair features 60 exhibitors, showing e wide range of *Oriental* and *Islamic* works from the Far East, including China, Japan and Korea as well as Southeast Asia, India and the Middle East. Exhibitors include Oliver Hoare, Gisele Croës and John Eskenazi; from Mar 22 to Mar 26

EXHIBITION
Brooklyn Museum
Tel: 1-718-638-5000
● Mistress of the House, Mistress of Heaven: Women in Ancient Egypt: exhibition examining the role of women in ancient Egypt in the court, family end temple. Approximately 200 objects will be on display, *including 20 rarely seen pieces* from the Museum's permanent collection; to May 18

■ PARIS

CONCERT
Cité de la Musique
Tel: 33-1 44 84 45 00
● Orchestre et département de *chant du Conservatoire de Paris*: with conductor Pascal Rophé perform works by Debussy and Ravel; *Mar 20*
Musée d'Orsay Tal: 33-1 40 49 48 14
● Tokyo Quartet: perform works by Schubert and Brahms: Mar 20

■ STOCKHOLM

CONCERT
Stockholms Konserthuset
Tel: 46-8-7860200
● Gideon Kremer: performance by the violinist, accompanied by Veronica Hagen, Clemens Hagen, *Alois Posch and Oleg* Maisenberg. The programme include works by Shubert, Schnittke and Harbison; Mar 21

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Göteborg Symphony Orchestra: with conductor Neeme Järvi perform works by Tubin, Stravinsky and Lidholm; Mar 20

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Siegfried: by Wagner. Conducted by Runnicles and performed by the Wiener Staatsoper. Soloists include Eaglen, Gonda and Efraty; Mar 20

Listing selected and edited by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. *E-mail: artbase@pi.net***

WORLD SERVICE

BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

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(Central European Tima)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

FINANCIAL TIMES
Wednesday March 19 1997

Arab anger as Netanyahu defies world opinion

Work starts on east Jerusalem settlement

By Judy Dempsey and Avi Machlis in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, yesterday defied world opinion by beginning the construction of a new Jewish settlement in Arab east Jerusalem.

As four bulldozers, under heavy guard, cleared the way to the barren stony hill of Har Homa, Mr Saeb Erekat, chief Palestinian negotiator spoke of "a black day for the peace process".

"Everything we have worked for is being taken away by the Netanyahu government," he said.

But Mr Netanyahu said: "There is no good time to build in Jerusalem because there are always objections to each building. We intended to build. We promised to build. And we are building."

Hamas, the Islamic Resistance Movement responsible for the wave of bombings in Israeli cities last year, called for a Palestinian uprising to protest against the start of work on the settlement.

Small groups of Palestinians, led by Mr Faisal Husseini, the Palestine Liberation Organisation's minister for Jerusalem affairs, looked on as the bulldozers started removing earth.

Mr Husseini, who is camping out with his followers in tents close to the site, accused Israel of escalating the crisis. "We feel we must confront their plans," he said.

Mr Erekat said there was a growing sense of hopelessness. "What can we do? The Israelis have an army, an air force, a police force. They seem above the law. Even the US is doing nothing about it [the settlement]." He had earlier warned that construction of Har Homa would play into the hands of extremists.

It is unclear what strategy Mr Yassir Arafat, president of the Palestinian Authority, will adopt in the following days. Several countries have warned him against resorting to violence.

The Israeli military and police forces have stepped up patrols, sealing off Har Homa and preventing Israelis from entering cities under Palestinian control. Both sides have agreed to suspend joint patrols in the West Bank for security reasons.

Israel's decision to build at Har Homa - Jabal Abu Ghneim in Arabic - has rocked the peace process. The city is holy to Jews, Moslems and Christians, with Jews and Palestinians equally determined to claim it as their capital. Under the 1993 Oslo Declaration of Principles, the future of Jerusalem was recognised as the most sensitive issue, to be resolved in the final phase of talks.

Mr Shimon Peres, leader of the opposition Labour party, criticised the Israeli government for "a very serious mistake" in focusing attention on the controversy surrounding Jerusalem.

● Jewish settlements on occupied Arab lands have a higher percentage of vacant homes than inside Israel, the Central Bureau of Statistics said on Tuesday, *Reuter reports from Tel Aviv*. In Israel, 5 per cent of housing stock was empty compared with 12.1 per cent in Jewish settlements in the West Bank and the Gaza Strip.

EU likely to impose duty on dumped Norwegian salmon

By Caroline Southey in Brussels and James Buxton in Edinburgh

Sir Leon Brittan, the European Union's chief trade negotiator, is expected to recommend a 13.7 per cent duty on imports of Norwegian salmon after a European Commission report accused Norway of dumping.

A confidential report by commission experts says Norwegian producers have been selling salmon in the EU at less than the cost of production. The report added that Norwegian producers had been paid unfair state subsidies, causing prices to fall and Scottish salmon growers to lose profits.

The finding will be welcomed in the highlands and islands of Scotland where the salmon industry is based. In the run-up to the general electiou it will also belp offset complaints that the Conservative government has done too little for the industry.

Mr David Windmill, managing director of McConnell Marine Harvest, the biggest Scottish producer and a leading force seeking action against Norway, said: "If what we've heard is correct then we're pleased. We're hoping to achieve a level playing field with the Norwegians."

Sir Leon has the power to impose provisional duties for six months after consulting the EU's committee on anti-dumping, which is made up of officials from member states. The committee will discuss his recommendation tomorrow and is expected to make a decision in early April.

Extending the duties beyond six months needs the approval of EU member states.

EU trade officials said it was difficult to predict which way member states would vote. "The fish-processing industry will lobby hard against duties as they want an abundant supply of cheap fish. Such supplies come mainly from Norway," said an EU official. But he added that member states might back the duties on the grounds that other fish markets could be similarly affected in future.

Fish farmers in Scotland have complained that the Norwegian industry dumped fish in the EU between August 1995 and July 1996. The report recommends an average duty of 10 per cent on salmon imported from seven large companies to counter the effect of the dumping, and an additional 3.7 per cent for the subsidies.

The Norwegian government is expected to resist the imposition of duties givan the importance of the salmou industry to the economy. Norway has dominated the European market for farmed Atlantic salmon since it pioneered the industry in the 1980s, producing 295,000 tonnes last year.

Clinton nominee questioned

Continued from Page 1

centrate on dealing with very real foreign challenges rather tbau with the domestic wounds that Washington is inflicting ou itself."

Mr Lake's criticisms of the Republican-controlled Senate were echoed by Mr Clinton, whose spokesman said the president felt the process was "inexcusably flawed".

Possible replacement uominations include Mr George Tenet, the career officer who is the agency's acting director. Mr John Sweeney, president of the AFL-CIO, the United States' most powerful union federation, yesterday lenthis unconditional backing to Ms Herman and urged theSenate "swiftly" to confirmher.

CNN airs first report from new bureau in Havana

By Pascal Fletcher in Havana

"Hello from CNN's new Havana bureau, at long last." With these words Cable News Network became the first US news organisation in nearly 30 years to open offices on the communist-ruled island.

After years of blasting the US media as mouthpieces of the "imperialist" US government, the Cuban government announced last November it would allow CNN to set up a bureau in Havana.

But CNN had to wait three more months before the US administration gave permission. Nine other US news organisations were also given licences to open offices in Cuba, but Havana said only CNN would be allowed in for the time being.

US officials say the presence of US news organisations will increase pressure for democratic change in Cuba. The Cuban government hopes regular reporting from the island will help convince US public opinion of the futility of the US embargo policy.

Anti-Castro Cuban exiles have accused CNN of being "soft" on the Cuban government in its reporting.

CNN and other US agencies have a special dispensation from the US trade embargo and the Helms-Burton law, which seeks to curb foreign investment in Cuba and has sparked an international trade row between the US and its allies.

The last permanent US news bureau in Cuba closed in 1969 - Washington broke off diplomatic relations with Havana in 1961 and imposed an economic embargo the following year. Since then, US journalists have been limited to temporary visas.

CNN's Ms Lucia Newman has been transformed into something of a celebrity since becoming the network's Havana correspondent. In her first broadcast - from the offices in the Habana Libre hotel, formerly the Havana Hilton, against the exotic backdrop of the Havana coastline at sunset - Ms Newman reported on tension between Washington and Havana over Helms-Burton.

For her second news item, to be aired on Tuesday, she chose the prickly theme of press freedom in Cuba. "Unobjective" or "disrespectful" reporting can earn a formal rebuke or, in extreme cases, expulsion.

However, apart from government officials, few Cubans will see Ms Newman's broadcasts. CNN is generally only available in Cuba in tourist hotels or to those diplomats and foreigners who pay hard currency to receive it.

THE LEX COLUMN

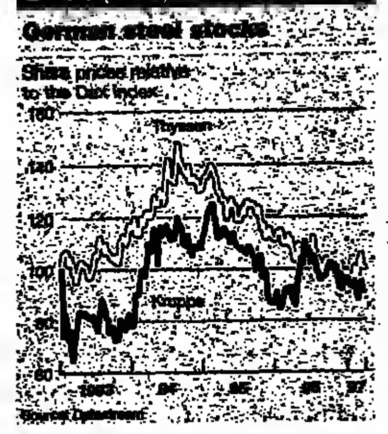
Tussling for Thyssen

Ths logic behind combining Thyssen and Krupp Hoesch, Germany's two big steel groups, was never in doubt. Only the will has been lacking – following failed merger talks, Krupp has had to resort to a hostile DM13.6bn ($8bn) bid for its larger rival.

The key lies in commodity carbon steel, where Europe – with 19 producers against Japan's six – is hugely oversupplied. If it wins, the enlarged Krupp would rival British Steel and Usinor Sacilor for size. And it would be able to shut its loss-making Dortmund plant, while contributing modern coking facilities to Thyssen's efficient steel plant 20 kilometres away. That would save the two over DM1bn each in capital spending, while cost savings from job cuts could amount to more than DM800m a year. Meanwhile, the removal of Dortmund's capacity should benefit prices and Europe's steel industry generally.

In view of that, the offer price at five times Thyssen's operating cash flow does uot look expensive. A wholly debt-financed purchase would, however, put Krupp's balance sheet under absurd pressure. A disposal of non-core businesses, such as Thyssen's telecoms and trading activities, could raise around DM6bn. Even so, a sizeable equity issue would be likely. And the performance of the underlying businesses also badly ueeds sharpening – both Thyssen and Krupp had returns on capital of just 3 per cent last year.

FTSE Eurotrack 200:
2179.5 (-14.6)



German takeovers

Krupp's attack on Thyssen breaks Germany'e cosy corporate culture wide open. Hostile bids in Germany are rarer than four-leaf clovers and one this large, for a company as laden with tradition as Thyssen, is unprecedented.

For investors, this is good news. It suggests that industrial logic is starting to prevail over vested interests, as companies wrestle to improve competitiveness. It moves the theme of shareholder value creation, which has been driving German equities forward, into a new phase: from internal restructuring to rationalisation across industries.

Admittedly, Krupp has three things in its favour: one of Germany's most dynamic chief executives, Mr Gerhard Cromme, who is not afraid of controversy; the backing of Germany's two most powerful banks, Deutsche and Dresdner, usually defenders of the status quo; and the fact that Thyssen's share register is largely unencumbered by the friendly cross-holdings so common in Germany.

Even without those advantages, however, German managements must not shy away from consolidation. Big strides have been made in chemicals through joint ventures and asset swaps. But overcapacity remains in financial services, construction – where Hochtief has long been stalking Philip Holzmann – and retailing. Given record unemployment and political sensitivities, companies will have to take care not to provoke a popular backlash. But in the long term, more restructuring will be needed to preserve the "made in Germany" label.

Japanese shares

Japan's "nifty" stocks, a group of international blue chips including Sony, Toyota, Houda, Canon and Yamaha, have been the toast of equity investors over the past two years. Since June 1995, a group of 15 of the nimblest nifty companies has jumped by nearly 90 per cent. Sony and Yamaha have doubled in value and Honda has nearly tripled. By contrast, the stock market has risen by less than a quarter.

Much of that outperformance has resulted from the positive impact of a weaker yen on their international competitiveness and profits. In addition, the limited restructuring carried out by Japanese corporates has been concentrated among the very same nifty stocks. Between 1995 and 1996, for instance, carmakers reduced their break-even points by nearly 5 per cent, while costs at property companies and retailers increased 4-5 per cent. And in a painfully illiquid equity market, investors have concentrated on big, international names.

Where next for the nifty phenomenon? Concern that the yen is stabilising has triggered profit taking recently. But earnings growth has more than kept pace with share price increases, so valuations have not actually expanded. The average price/earnings multiple for the nifty 15 on 1997 forecasts is 29, against 45 times for the market average. As Japan's economy recovers, those with more domestic exposure, like Sony and Matsushita, look best placed. But the entire portfolio should remain nifty for the foreseeable future.

UK power

Try as Britain's generators might, regulatory worries have a nasty habit of clinging to them. It was only a matter of time before someone suggested, as yesterday's otherwise bland Commons trade and industry committee report does, that the generators might need to shed yet more power stations to get real competition going. To battered investors that probably sounds ridiculous. Only a year ago, after all, both generators had to hand large chunks of plant to Eastern Group. And since then, power prices at the times that matter – when demand is high – have unambiguously fallen. The snag is that this may not mean much: healthy plant availability and a mild winter would probably have brought price falls anyway. It may not seem fair, but in reality few will be convinced that wholehearted competition has set in until a really gruesome price war breaks out.

Part of the blame lies with the generators themselves, for leasing the plant to Eastern under contracts which rather obviously reduce the new owner's incentive to let rip. But, they must be tempted to wonder, who cares? After all, the Monopolies and Mergers Commission appeared relaxed about the generation market in its related reports last year. Still, investors should not be seduced. For one thing, the MMC reports were conspicuously shoddy bits of work. For another, one awkward by-product of domestic competition next year is likely to be far closer scrutiny of who pays what for electricity and why. The debate is bound to return.

Additional Lex on Dorling Kindersley, Page 22

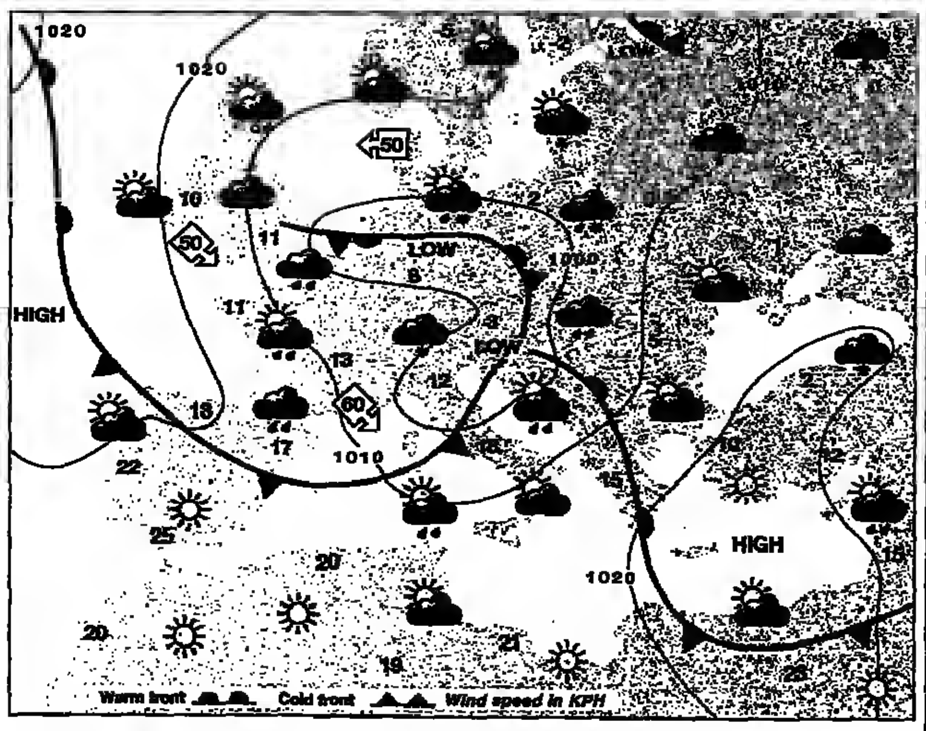
FT WEATHER GUIDE

Europe today

A depression extending from Holland and Germany towards the Alps will bring cloud to most of western Europe. There will be areas of rain, sleet and snow.
Low pressure over the Baltic states will cause Finland and eastern Sweden to be cloudy with light snow.
A high pressure area to the west of Ireland will bring sunny conditions to the southern half of Spain.
Eastern Europe will be cloudy with some light snow.

Five-day forecast

High pressure west of Ireland will move towards the continent. This will cause cold air to flow from Scandinavia towards western Europe. The colder air will bring sleet showers and lower temperatures.
Low pressure over western Europe will move towards the Mediterranean, bringing rain to eastern areas.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 15	Caracas	fair 28	Faro	sun 20	Madrid	sun 22	Rangoon	sun 37
	Celsius	Belfast	shower 11	Cardiff	shower 9	Frankfurt	rain 10	Majorca	sun 20	Reykjavik	fair 2
Abu Dhabi	shower 23	Belgrade	cloudy 12	Casablanca	sun 20	Geneva	rain 12	Malta	sun 15	Rio	fair 27
Accra	fair 31	Berlin	sleet 3	Chicago	fair 4	Gibraltar	sun 21	Manchester	cloudy 10	Rome	shower 15
Algiers	sun 21	Bermuda	fair 22	Cologne	rain 5	Glasgow	fair 9	Manila	fair 32	S. Frsco	fair 15
Amsterdam	rain 9	Bogota	thund 19	Dakar	sun 26	Hamburg	rain 4	Melbourne	fair 24	Seoul	sun 13
Athens	fair 14	Bombay	sun 36	Dallas	sun 18	Helsinki	snow -2	Mexico City	shower 27	Singapore	fair 32
Atlanta	cloudy 15	Brussels	rain 6	Delhi	sun 30	Hong Kong	rain 21	Miami	fair 28	Stockholm	snow 0
B. Aires	fair 26	Budapest	rain 5	Dubai	cloudy 24	Honolulu	fair 28	Milan	shower 15	Strasbourg	rain 11
B.ham	fair 11	C.hagen	sleet 2	Dublin	shower 10	Istanbul	sun 7	Montreal	snow -1	Sydney	sun 30
Bangkok	fair 37	Cairo	fair 18	Dubrovnik	shower 14	Jakarta	fair 31	Moscow	snow -1	Tangier	sun 21
Barcelona	sun 17	Cape Town	fair 24	Edinburgh	hail 7	Jersey	fair 10	Munich	rain 14	Tel Aviv	cloudy 15
						Karachi	shower 30	Nairobi	sun 30	Tokyo	rain 12
						Kuwait	sun 24	Naples	shower 15	Toronto	cloudy 3
						L. Angeles	sun 26	Nassau	fair 28	Vancouver	rain 12
						Las Palmas	sun 24	New York	cloudy 5	Venice	shower 12
						Lima	fair 25	Nice	fair 19	Vienna	sleet 5
						Lisbon	sun 23	Nicosia	sun 13	Warsaw	cloudy 3
						London	drzzl 11	Oslo	fair 3	Washington	cloudy 6
						Lux.bourg	rain 8	Paris	rain 11	Wellington	sun 16
						Lyon	rain 13	Perth	fair 27	Winnipeg	snow 1
						Madeira	shower 20	Prague	sleet 4	Zurich	rain 11

FINANCIAL TIMES

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Wednesday March 19 1997

US's China connection

The allegations of impropriety which have dogged President Bill Clinton since his first term have created few ripples outside Washington until now. However, recent suggestions that China may have been involved in covert US election campaign contributions raise wider concerns. There is a growing risk that the controversy will directly affect government policy, jeopardising the future of an international relationship of vital importance to the US and to much of the rest of the world.

Much about the affair is still murky. It turns on reports that the Federal Bureau of Investigation warned the White House and several members of Congress last year that China might be planning to channel money into US politics. But there is no evidence as yet that any such funding took place, nor any coherent explanation of what China might have had in mind.

In these circumstances, judgment should properly await the outcome of a thorough FBI investigation. If this found misdeeds, they should be prosecuted and US political funding rules tightened. Instead, Mr Clinton's Republican opponents have seized on the affair to challenge his political authority.

The incident has also played into the hands of hard-line US critics of China. It has given new life to "yellow peril" scare-mongering and emboldened those urging a confrontational stance against China over human rights and trade – particularly in respect of the Hong Kong handover.

The danger is that these pressures will cause a promising opportunity to improve relations with China to be squandered. After years of vacillation, Mr Clinton is now seeking a sustained and constructive dialogue with Beijing. His change of tack rightly recognises that the US holds the key to China's integration into the global economy and its development of more stable international relationships. That task will be long and hard. But the deeper China's international engagement, the greater its incentive to behave responsibly and heed world opinion. Crude efforts to contain or isolate China, by contrast, risk encouraging it to turn inward and undermining the reformers in its leadership.

However, Mr Clinton's approach is flawed by his failure to spell out strategic priorities or a vision of how he wants US-China relations to evolve. This not only risks misunderstandings with Beijing. It enables US critics to portray his quest for improved ties with China as evidence of weakness.

Mr Clinton needs to distinguish the US approach on security issues clearly from that on economic and trade questions. On the former, he should set out firm principles. On the latter, he should be more pragmatic. He also needs to impress on US human rights activists that progress on this front is possible only in the context of a broader relationship with China.

His domestic opponents also need to think carefully about their aims and tactics. Whatever the truth of the China funding allegations, reducing policy towards China to mere partisan point-scoring would be a highly irresponsible course, which could only damage the longer-run interests of the US and weaken its capacity for international leadership.

German steel

Hostility is a way of life for Mr Gerhard Cromme, boss of Krupp Hoesch, the German steelmaker. Five years ago, as head of Krupp, he forced Hoesch into a nominally friendly but unwanted merger. Now he has launched an overtly hostile bid for Thyssen, with tactics – and advisers – straight from the Anglo-Saxon textbooks.

Thyssen is outraged; steel workers are on the streets. The Krupp Hoesch merger was followed by the loss of 25,000 jobs and the closure of an integrated steelworks at Rheinhausen. This time, Hoesch's plant in Dortmund is at risk.

The prospect of more job losses at a time of record unemployment will test the tolerance of German public opinion for continued restructuring. With a weaker D-Mark and a recovering economy, many people believe the need for cuts should now be coming to an end. Other observers believe that big German companies have only begun the task of restoring competitiveness. The Krupp Hoesch bid lends support to this view, but it will not be popular.

A second issue is competition. The merged company would account for the bulk of Germany's steel output, mirroring France and Britain, which both have dominant national steel producers. Mergers across Europe's borders are in principle preferable to national consolidation, but steel is following the pattern of defence, another traditional "strategic" industry, and rationalising first on national lines. That is less than ideal, but it may be inevitable. The European Commission – likely to have the last say – should judge the merger not on market share in Germany, but on share in Europe.

The third issue is that of the rights of smaller shareholders. In the Hoesch bid, Mr Cromme left them out in the cold, striking cosy deals with large shareholders first. This time, with shares much more widely held, he is promising to do better. Though Germany's voluntary takeover code offers only limited protection for minority shareholders, Krupp's biggest adviser, Deutsche Bank, says the company intends fair treatment for all. The structure of the bid – in which Krupp is bidding initially only for majority control – will put that pledge to the test.

Mr Cromme has helped create a German market for corporate control. He should now deliver on the promise to treat all shareholders equally.

BBC's challenge

Lord Reith would not, perhaps, turn in his grave, but the commercial scope of the deal announced on Monday between the BBC and Flextech would have astonished the corporation's austere founder. The agreement with the US cable and satellite channel provider, is part of an arrangement which could net the BBC some $1bn in revenues from the reshowing of its library of old programmes.

Although deals on this scale seem far from the public service culture of the 1920s, they are, as a report from the National Heritage parliamentary select committee pointed out yesterday, the way things are going. And the change is happening much faster than most people imagined only a few years ago.

The development of digital television with hundreds of channels, the construction of cable networks and the coming together of broadcasting, telecommunications and home computing will soon transform the choices available to consumers.

Two implications for the BBC stand out starkly: it will steadily lose market share and it will consequently find the licence fee harder to justify, even at the present level, let alone at the increased rates which it might like to fund new services. The corporation has rightly seen that as a result it must cut costs and look aggressively for new sources of revenue. The committee believes that to be successful, it will need a more professional board of managers to replace the part-time governors set up in a different era.

As the BBC is forced to compete in an increasingly complex commercial market, a change to a stronger board might indeed be helpful. But this would raise profound questions about how and to what extent the corporation's public service values should be preserved in the new world.

A more aggressively commercial management might, for example, need to be curbed by an external regulator guarding the public interest – perhaps a revamped form of the Independent Television Commission. But to transfer the responsibility for complying with the BBC's charter outside the organisation could fundamentally change the corporation's mission.

These issues proved too complex to be resolved in the dying embers of this parliament. But whether or not they form part of the election debate, they cannot be put off beyond the next.

Return of the reformer

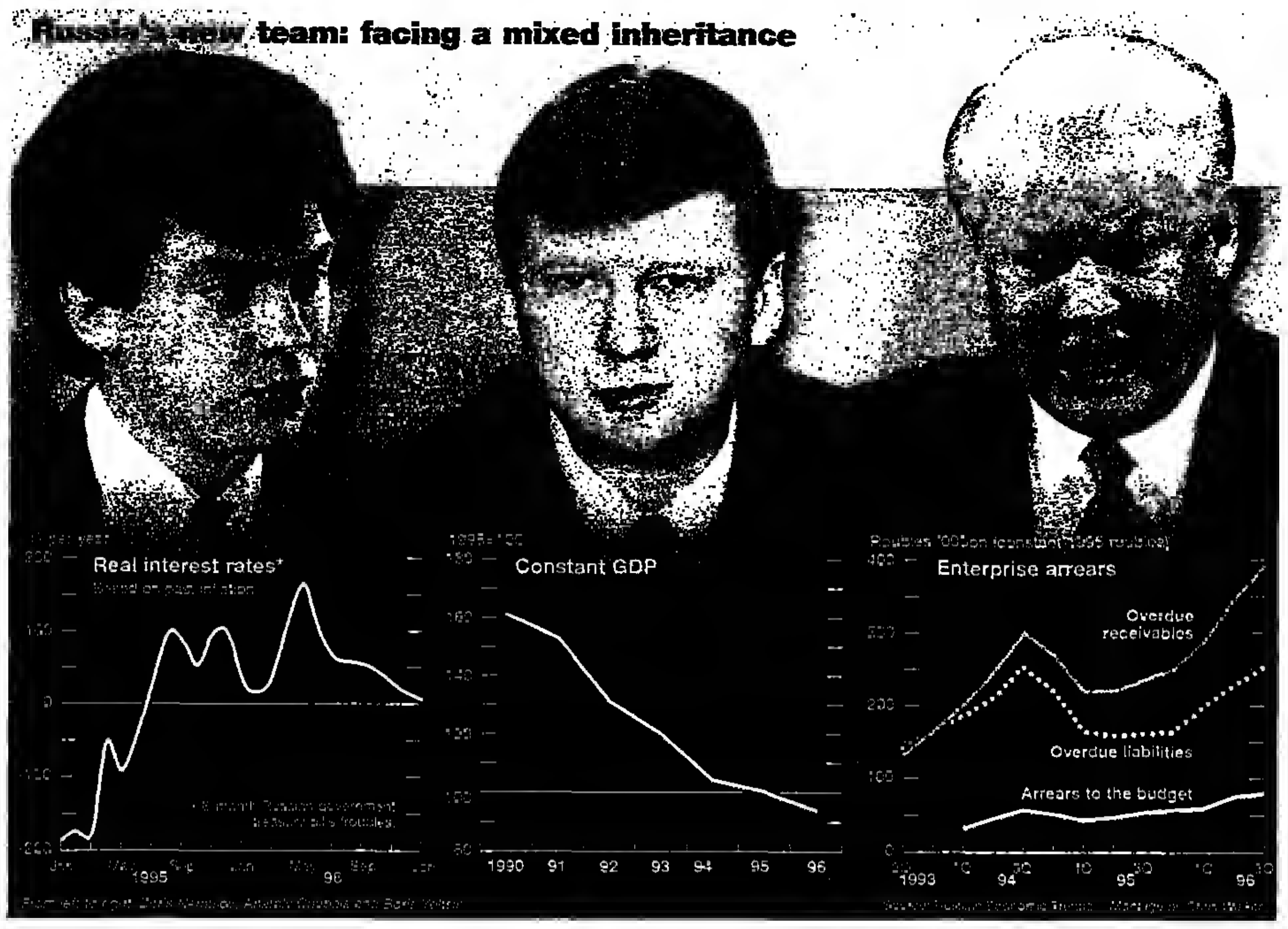
Progress with Russia's economic and political transformation still hangs on Yeltsin, say Chrystia Freeland and Martin Wolf

With his presidential address of March 6, Boris Yeltsin the reformer announced that he was back. Not since 1992, when the president first lost his reformist nerve, has there been as good a chance of coherent change in Russia as now.

Not only has Mr Yeltsin apparently returned to health but he has appointed as first deputy prime miniatars two leading reformers, Mr Anatoly Chubais and, this week, Mr Boris Nemtsov, governor of Nizhny Novgorod.

"This government will be the most pro-reform since 1993," argues Mr Yegor Gaidar, architect of the first reforms of the Yeltsin era. "My feeling is that there is a substantial chance that the government will be successful," he adds. One reason for such optimism is that, in the words of Mr Boris Fyodorov, a former finance minister, experience in government has given Mr Chubais "iron rods in his back".

The last-minute addition of Mr Nemtsov to the government team is a clever move by Mr Yeltsin to strengthen the reformers. As a popular regional governor, Mr Nemtsov has been forced to develop the common touch, a talent that has eluded remote Moscow bureaucrats, such as Mr Chubais. As an outsider, Mr Nemtsov is free of the taint of corruption that has attached itself to much of the Yeltsin administration.



The economic legacy to the new team is mixed. But prices have at least been liberalised, three-quarters of the economy has been privatised, inflation brought under control and output stabilised – if after a decline of nearly 50 per cent. Investor confidence has strengthened: the stock market has risen 60 per cent since the beginning of this year, to 300 per cent above its level in early 1996; and the annualised yield on six-month non-taxable government securities fell from a peak of 200 per cent last May to 30 per cent in January 1997.

In his speech of March 6, the president stated his desire to bequeath to his successor, due to take over in 2000, "a country with a dynamically growing economy [and] an effective and just system of social protection". To achieve this, his government will focus on the budgetary crisis and tax reform, regulation of natural monopolies, pensions and housing, the military and the government administration.

The most pressing concern is the fiscal position. The budget is unrealistic, tax arrears are pervasive and the tax system irrational and arbitrarily administered. Failure to pay the government's spending obligations has become habitual, while the misappropriation of funds is commonplace.

If these ills are not remedied, it will be impossible to maintain low inflation in the long run, given the limits on the government's ability to borrow, or satisfy the expectations of the citizenry. The new team will have to push a realistic budget through parliament for next year, create a less corrupt and more effectiva fiscal administration and undertake fundamental tax reform.

Because privatisation preceded structural reform, it is now necessary either to break up monopolies or impose more effective regulation. The electricity industry must be restructured, not least by creating a wholesale market that would permit competition among generators. Unfortunately, the power of some enterprises, above all Gazprom, the world's biggest producer of gas, is so great that it will be next to impossible to create effective competition everywhere.

The new team will also have to turn its attention to social issues. Pensioners have been among the most vulnerable victims of the government's failure to pay its obligations. This can only be rectified if the fiscal house is put in order. In the longer term, however, the government needs to promote private provision.

Housing subsidies account for 4 per cent of GDP, but disproportionately benefit occupants of relatively large urban flats. Rents must at least cover operating costs, with subsidies targeted on the poor. Administrative efficiency should also be improved by dividing the organisations providing maintenance from those responsible for administration.

The war in Chechnya, which revealed an ill-led, ill-disciplined and poorly equipped armed force, demonstrated the urgency of military reform. It will be important to introduce competitive procurement and cut the 270,000 "dead souls", or non-existent personnel, from the list of servicemen. Professionalisation of the armed forces is a longer-term aim, one that requires a stronger budgetary position than exists today.

Essential for everything is a well paid, honest and effective public administration. This will take a generation. But, as the president noted in his speech, improvements must start now.

Two questions arise. The first is whether such a programme would secure the president'a aims. The answer is that, with the economy now on the verge of recovery, it should at least secure a period of economic growth, particularly if the public finances are improved. But if growth is to be sustained and rapid, Russia must go further. Deregulation and strengthening of private property rights are the chief tasks for the longer term.

The second question is whether the agenda can be implemented. The most immediate threat is popular protest. Some observers fear that the Russian people, who have been extraordinarily tolerant of hyper-inflation and wildly unjust privatisation, may draw the line at reforms that will slash their social welfare entitlements and raise their rents.

"People don't really care if someone steals Norilsk Nikel or Gazprom, but they do care if they must pay 60 per cent of their salaries for rent," Mr Fyodorov says. "It is a very dangerous thing. There will be a protest."

The first big test of the country's mood will come on March 27, which trada unions and communists have designated as a day of national strikes and demonstrations in protest at unpaid salaries and benefits. Mr Alexander Lebed, the former general who openly covets the presidential throne, has warned that these protests could ignite an Albanian-style popular revolt.

His is a minority opinion. Most officials expect the prosperity of Moscow and the lack of effective civic organisations to insulate the new cabinet against the wrath of the provincial hoi polloi.

The opposition of Russia's powerful regional leaders could prove more difficult to ignore. A marathon of regional electiona last autumn has made most provincial chiefs independent of Moscow. In the long run, the proposed package of reforma is likely to benefit the regional governments, but it will alienate their citizenry in the short term. If the provincial leaders decide that is too high a price to pay, there may be little the Kremlin can do to coerce them.

According to Mr Valery Shantsev, deputy mayor of Moscow, the powerful administration of the Russian capital has already decided that housing reform is a bad idea because the population is too poor to pay higher prices.

The city therefore intends to boycott the federal programme and appears quite fearless about the consequences of this mutiny. "No matter what they [the federal authorities] do to us, we will not implement it [the housing reforms]," says Mr Shantsev.

And as for pressure from Mr Chubais, the federal government's new enforcer, Mr Shantsev is dismissive: "Chubais could be sacked tomorrow, but Yuri Mikhailovych [the mayor of Moscow] will be here until the year 2000.... So they have very different positions and I think that in any battle, in any fight, it is Yuri Mikhailovych's position which will prove to be superior."

Other institutional sticking points could emerge in the Communist-dominated parliament, which has an interest in the reformers' failure; in the military, which is certain to oppose tighter spending controls and budget cuts; and in the natural monopolies, which are unlikely to welcome a diminution of their control or their revenues.

Some of these vested interests could find a covert ally in the man nominally heading the reform drive, Mr Victor Chernomyrdin, the prime minister. Mr Chernomrydin has been humbled and weakened by Mr Chubais's elevation to a job one economist described as "a second prime minister". He also retains close links to Russia's most powerful monopolist, Gazprom, the natural gas titan the premier once ran.

Western observers often dismiss the gray, stolid prime minister as a Soviet-era weakling. But one reformist former cabinet minister warns: "Mr Chernomyrdin is so clever at these palace tricks that he will find a way to neutralise Mr Chubais."

In the end, it will come back to Mr Yeltsin. Only he has the charisma and moral authority to persuade the Russian people to suffer just a bit more. The Kremlin leader is the only federal politician with the force of will to make the regional governors, the army and the monopoly bosses back down. And only Mr Yeltsin can determine the winner in the byzantine cabinet struggles he has himself ensured.

Optimists are hopeful that Mr Yeltsin will throw his weight behind the reformers. "His ambitions are now historical. In this situation I think there is a chance that he will grant the government long-term support," argues Mr Gaidar.

Others warn that it has been the president's style to support reform for half a year and then be distracted by adventures. The war in Chechnya was one such detour. A full political and economic union with authoritarian Belarus – a cause Mr Yeltsin has forcefully advocated this month – could be this year's diversion.

Since bringing the Communist regime crashing down in 1991, Mr Yeltsin has led his country a part of the way to the promised land of a prosperous market economy and a liberal democracy. It is a measure of Mr Yeltsin's political achievements and his failures that completing this journey still depends on one man.

· OBSERVER ·

Lessons in hard labour

■ Johan Stekelenburg's nine years as general secretary of the FNV, the main Dutch labour union, has been a period of unprecedented wage restraint. But the departure of one of Europe's longest serving union leaders is no admission of failure.

Workers vote with their feet and Stekelenburg leaves the FNV with its membership at a record 1.2m, up by a third since he took over. The secret lay in promoting individual benefits – such as access to free financial advice – and recruiting part-time workers and contract staff, primarily women. These are lessons now being learned by the AFL-CIO in the US and the TUC in Britain.

Aged 55, Stekelenburg aspires to be mayor of Tilburg; but if that doesn't happen another public sector slot is likely to be found for him by Wim Kok, prime minister and his predecessor but one as FNV union chief.

Tipped to succeed him is Lodewijk de Waal, currently co-ordinator of collective bargaining and responsible for environmental and international policy. UK union leaders last year had the benefit of his views – along with those of Stekelenburg – on how the one of the EU'a best economic growth rates could be combined with a strictly enforced minimum wage.

John Monks, TUC general secretary, is repaying the visit by making the keynote speech at the FNV annual congress at the end of May; by that time election-bound Britain may be learning to live with a minimum wage of its own.

Cromme cropper

■ With his wavy hair and infectious smile, Krupp Hoesch boss Gerhard Cromme has some of the most boyish looks in German industry. But there was nothing playful about the way he engineered Krupp's takeover of rival steel group Hoesch in 1992; he probably has what it takes to repeat the trick on a larger scale with Thyssen.

Last time around Cromme and his family had to put up with angry steelworkers who camped on their lawn for several weeks. Life got so hairy at one stage that Mrs Cromme and his four daughters had to be spirited away over the garden wall at the back of the house. Yesterday, with bullet-proof shields protecting Cromma as he tried to explain his strategy to more angry steelworkers, it seemed as if things were going to pick up where they left off. But the internationally minded lawyer – who likes to describe himself as "an industrialist, not a visionary" – has already shown that he'a not easily blown off course.

Spanish steps

■ There's nothing like a big international meeting for a bit of corporate glad-handing: the InterAmerican Development Bank's Barcelona bean-feast this week has been no exception. But Spanish banks' attempts to outdo one another in the lavishness of their cocktail parties have left even battle-hardened freeloaders gobsmacked.

The culmination was Monday night's bash hosted by Banco Central Hispano at the vast and elegant Estación de Francia, one of two big mainline railway stations in the city. The party covered two-thirds of the station and the bank hired a full orchestra and two trains; one of these constantly steamed in and out of the station carrying dancers performing in the tradition of Latin American countries in which it has affiliates.

Close to half of the 5,600 people who have registered at the meeting were said to have attended. The cost of the whole event – which went on into the small hours, in the best Spanish tradition – was estimated by catering experts at upwards of half a million dollars.

But if you've spent billions of dollars buying Latin American banks – as the Spanish have over the last year or so – what's a few hundred thousand among friends?

Rambling Russian

■ In the wild garden that is Russian politics, Boris Nemtsov seems a delicate flower. With his somewhat foppish charm, the Kremlin's new wonder-boy might appear to be ill-suited to slugging it out with his rivals to assert himself as a first deputy prime minister. By contrast, Boris Yeltsin prepared for the Kremlin in his youth by becoming a fearsome volleyball player while the president's chief opponents, Alexander Lebed and Grigory Yavlinsky, were once successful boxers.

But one should not discount Nemtsov too soon. Few other Russian politicians can claim the honour of having squared up to Vladimir Zhirinovsky, the leader of the country's ultra-nationalist right. Nemtsov so incensed Zhirinovsky in a television debate last year that he threw a glass of orange juice over the youthful governor from Nizhny Novgorod. Nemtsov's response? He threw his glass right back at "Mad Vlad".

The Financial Times

100 years ago

Insurance In Germany
Few people really understand the German compulsory accident insurance system, and they cannot be blamed for the failure. Complication is piled upon complication until the subject seems to the superficial student a hopeless tangle. For every accident connected with his occupation – this being read in a very wide sense – the workman or his dependents have to be compensated. His employer has to do it, apart from all question of fault or carelessness, and the Government sees that it is properly done. At the end of 1895 about 18,000,000 workmen were insured.

50 years ago

U.S. Price Policy
Hopes that the general price decline which started in the United States in December would continue have been disappointed. There had been grounds for expecting that falling prices would so increase the real earnings of workers that further wage advances would not need to be granted. Recent rises in the cost of living, however, have occasioned misgivings.

■ Interview with Satyen 'Sam' Pitroda, chairman of WorldTel • By Alan Cane

Spreading the word

WorldTel's aim is to funnel private sector finance and expertise to telecoms development in the Third World on a commercial basis

Mr Satyen "Sam" Pitroda owns houses in Chicago in the US and New Dehli, India, but rarely sees either. Hotel rooms and airport lounges are more familiar surroundings for the Indian-born entrepreneur chosen to lead the most iconoclastic venture so far davised to improve communications in developing countries.

Mr Pitroda is chairman of WorldTel, a new kind of organisation establisbed by tha International Telecommunications Union (ITU) in 1995.

NatWest Markets, the corporate and investment banking arm of National Westminster Bank is its adviser and global fundraiser.

WorldTel's aim is to funnel private sector finance and expertise to telecoms development in the Third World on a commercial basis.

It is already in discussions with senior officials in some 10 different countries – Bangladesh, Brazil, China, India, Kenya, Mexico, Pakistan, Tanzania, Uganda and Zimbabwe.

The idea is to identify profitable projects costing anything from $100m to $1bn in each country before bringing together telecoms companies, governments and private investors to carry them ont. WorldTel's investors will provide the funds and the revenues will be shared between the participants.

Mr Pitroda says: "We are a special developmental company mandated to work only in developing countries. I will bring in money; I will bring in technology; I will work with the ITU and others to bring in expertise. I am interested in improving access to telephones and telephone density in developing countries but only on commercial terms."

WorldTel is the brainchild of Dr Pekka Tarjanne, ITU secretary-general, who had become increasingly concerned by the widening gap between telecoms capabilities in developed and developing countries. An effective telecoms infrastructure is recognised as a prerequisite for economic development, yet the shortfall in funds needed to sustain telecoms in developing countries is estimated at $30bn a year.

Mr Pitroda is applying the same restless energy to tha scheme that he has contributed to most aspects of his extraordinary life. One of eight children born to Gujerati parents in the Indian state of Orissa, he read physics at the University of Baroda in western India before emigrating to the US in 1964.

Ha worked for the GTE corporation in Chicago where he daveloped and patented novel switching systems. A company formed with two colleagues, Wescom Switching, was sold to Rockwell International in 1980, securing Pitroda's personal fortune.

At abont this time be became concerned with the problems of telecoms in developing countries and became an adviser to the late Mr Rajiv Gandhi, the Indian prime minister. Now he has the hroadest backdrop against which to test his ideas.

What makes WorldTel different, he insists, is its insistence on commercial viability but freedom from sectoral interests: "We are not a manufacturer. We are not pushing particular products. We are not an operator, so we are not primarily interested in expanding our number of subscriber lines.

"This puts us in a very interesting position. If we can structure a project to give us the commercial returns our investors feel are comparable with the risk they are taking, then we do not need, for example, control of operations. Wa need control of business success."


Pitroda: 'Without telecoms there cannot be development'

Seed capital of $10m has already been agreed hy the company's backers including G. E. Capital, American International Group, NatWest Markets and a number of Kuwaiti investment groups. There is a commitment, Mr Pitroda says, from the investors to put up a further $400m to $500m, depending on the quality of the projects.

"The idea," he says "is to define the projects and then fund them, as opposed to setting up a fund first."

There are large differences between the projects now being mooted. In China, for example, the group is in the early stages of planning a telecoms system based on wireless local loop (a radio connection between tha home or office and the local exchange).

"The project is in a small province in a rural area and as we are the first to tackle rural operations, we bave to be careful and move very slowly. If we get this one right, however, the authorities may say we can move into four or five other provinces as well.

"We will decide on the best technology jointly with the provincial telecoms company; we will fund the project jointly; and we will share the revenues and collection fees."

Mr Pitroda believes that the modernisation of the billing and collection systems will be an important part of the project: "The real problem in China is the accounting system. It is very different to those in the West. It is complex and not at all transparent."

WorldTel is looking at the four African countries as a bloc and is planning to install between 700,000 and 800,000 lines.

"Almost all of the new technology is going to be wireless," Mr Pitroda says.

In India, it intends to put forward proposals for three large states – Kerala, West Bengal and east Uttar Pradesh – where Western investors have so far failed to show interest:

"It is wrong to assume that it does not make business sense to develop telecoms in these states.

"Without telecoms there cannot be development. Waiting lists are very long. We believe we can structure projects there which will suit their needs."

WorldTel has the credibility of the ITU behind it, which is an important advantage in opening doors abroad, and access to its 200 or so consultants. The senior management team is slowly being put in place. Mr Robert Jenks has moved from GE Capital to become chief financial officer. Mr Terrefe Ras-Work has moved from the ITU to work on business development.

But for all its heady ambitions, it is still a very small organisation – abont 15 people in all. Mr Pitroda is used to having the odds stacked against him:

"It is such a unique idea that many people do not appreciate or understand it. It is very easy to shoot down something like this. But that is the excitement – it is so different. I think we can make a difference, but only time will tell."

■ Interview with Jay Naidoo, South Africa's minister of telecoms and broadcasting • By Mark Ashurst

Cornerstone of development

The part-privatisation of Telkom is the first significant sell-off since South Africa became a democracy almost three years ago. Its success is vital if the country is to achieve its aim – to be the global hub for telecoms in Africa

Mr Jay Naidoo bas an appetite for tasks that many politicians would regard as a certain route to failure. At the height of political repression during the dying days of apartheid, he emerged as the founding secretary-general of the Congress of South African Trade Unions and during the bloody years of emergency rule, he built Cosatu into the most powerful element of the internal resistance to apartheid.

In 1994, he was appointed minister without portfolio in the office of President Nelson Mandela, with overall responsibility for the government's ambitious reconstruction and development programme (RDP). The bold plans of the RDP, which was designed as a panacea for post-apartheid South Africa, quickly made it a hostage to political fortune. In February 1996, less than two years after its inception, Mr Naidoo's ministry was dissolved and he took on a new portfolio of posts, telecommunications and broadcasting.

The reshuffle reflects a strategic shift in priorities within the ruling African National Congress. It is no accident that the movement of a prominent trade unionist away from a welfare role to this portfolio coincided with the appointment of Mr Trevor Manuel as the first finance minister from the ranks of the ANC.

Both are political heavyweigbts tasked with the launch of South Africa's privatisation programme, the most politically sensitive aspect of the government's macroeconomic strategy.

Mr Naidoo's chief mission is to sell a 30 per cent stake in Telkom, the state-owned utility which monopolises the public exchange telephony, to an international telecoms company. This part privatisation, due to be completed by April, is both the first significant privatisation since South Africa becams a democracy almost three years ago, and a cornerstone of its future development. According to Mr Naidoo, "None of the government's economic plans can come to fruition without an information backbone".

The structure of the sale will provide a mechanism to accelerate the roll-out of new telecoms infrastructure, which he hopes will make South Africa the global hub for communications in Africa. But deciding the terms of the privatisation entails "a difficult philosophical choice," he says.

"We are agreed that we must get away from a monopoly [in pnblic exchange telephony], but how you move to competition is a very strategic issne. We are committed to a liberalisation timetable, but we have to make the deal as attractivs as possible because of the economic impact of telecommunications expansion."

His solution has been to structure the privatisation "in a phased way", that will preserva Telkom's monopoly for np to five years. He denies the policy demonstrates less commitment to liberalisation than the recent reforms in Chile, where competition was encouraged from the outset.

"For the multinationals, Chile has been very difficult because their profit margins have been squeezed so low that they're not getting a return on investment," he says. "What I've got to achieve is a balance between the development objectives we have as government and keeping the deal attractive. We are entering into a partnership to bring in world-class expertise, technology transfer, skills transfer and a culture of customer service, so it needs to be commercially-driven."

The first hurdle has been to determine the size of the equity stake, whicb will be about 30 per cent. Mr Naidoo says the tranche was "calculeted to bring in the commitment [of a foreign buyer] to become an active partner in the medium to long term".

The mechanism of a private trade sale, rather than a flotation, reflects the fact that Telkom needs more than capital. "The success of the deal can not be judged by the cash price alone. The most important criteria in deciding who wins the final bid will be the roll-out targets, and the ability of the company we bring in to improve prodnctivity and take us to world class standards. The rest of the issues are negotiable."

The price tag will be calculated on the basis of Telkom's potential value once it has reaped the benefits of an international partner. "We are expecting these guys to pay a premium – not market value, but what we expect the price to be in five years' time, post-exclusivity." Once the period of exclusivity has expired, he expects a public offering to raise "much bigger returns". Whether this is achieved will depend largely on the contribution made by a foreign buyer. A first step in that direction has been the creation of a new regulatory regime which Mr Naidoo describes as "one of the toughest in the world".

The new South African Telecommunications Regulatory Authority (Satra) is intended "to provide the certainty that investors will want when making mega-investments. There has to be a separation of roles, between our responsibility for policy and our responsibility as a shareholder, and that of the regulatory institutions and finally of the operational implementation," says Mr Naidoo.

But the critical issue of the licence conditions for Telkom, which will be binding on the foreign partner, have been set by the ministry. These were gazetted by the government last month and are, he says, "much tougher than they would have been if Satra had handled it".

The regulator's immediate task is monitoring Telkom's compliance with its new licence conditions, which specify targets for the roll-out of new infrastructure. "Thesa licences are not a blank cheque to Telkom. They impose very tough conditions and Telkom has to comply with it on the basis that if they don't comply they will face penalties."


Naidoo: he hopes South Africa will become the global hub for communications in Africa

Satra's future responsibilities will extend to the issue of 250,000 licences covering all areas of telecoms, including maritime traffic, air traffic, walkie-talkies and cellular licences.

"The idea of a regulatory regime accountable to parliament requires a distinction between the powers of Satra to issue licences – which is their independent right and there should be no interference by government – and the fact that there has to be a financial accountability for the efficient running of these institutions".

To that end, Mr Naidoo has stipulated a timetable for Telkom to rebalance its tariffs by ending its current practice of cross-subsidising local calls using revenue from international services.

"We've identified a period of three years over which we believe the core of the rebalancing should take place," he says. "Satra will consider the period of exclusivity during which they will rebalance fully their tariffs, but I am now setting that tariff regime for the next three years."

The terms of the privatisation span 13 transaction documents ranging from environmental compliance and international arbitration to the protection of minority rights.

"The legal terms are critical and hugely complex," says Mr Naidoo, who structured the deal with advice from SBC Warburg, the investment bankers. "We are dealing with companies from major western European and South American countries, used to very strong environmental legislation, but we are at a point where we are still developing policy here."

The current sale is restricted to a minority stake; but the terms of the deal must include the particularly sensitive issue of shareholder rights in future.

"If we get to a point where they lift their equity, how will that effect their rights 15 years down the line? How do you arbitrate disputes?"

Mr Naidoo's next hurdle is to balance the rival claims of Telkom and the ministry of finance. Mr Manuel, the finance minister, is counting on revenne from privatisation to help him bring down the government's budget deficit before borrowing. But Mr Naidoo insists that Telkom will require R5bn-R6bn of new capital from the sale, a prospect which has done much to placate trade unions which were initially hostile to the privatisation.

The former Cosatu leader acknowledges the irony of his role in the privatisation, but claims "the labour movement understands perfectly" what he is trying to achieve. "My exparience in the unions has been a big help in this job," he says. "We have done an awful lot of talking."

FT telecoms

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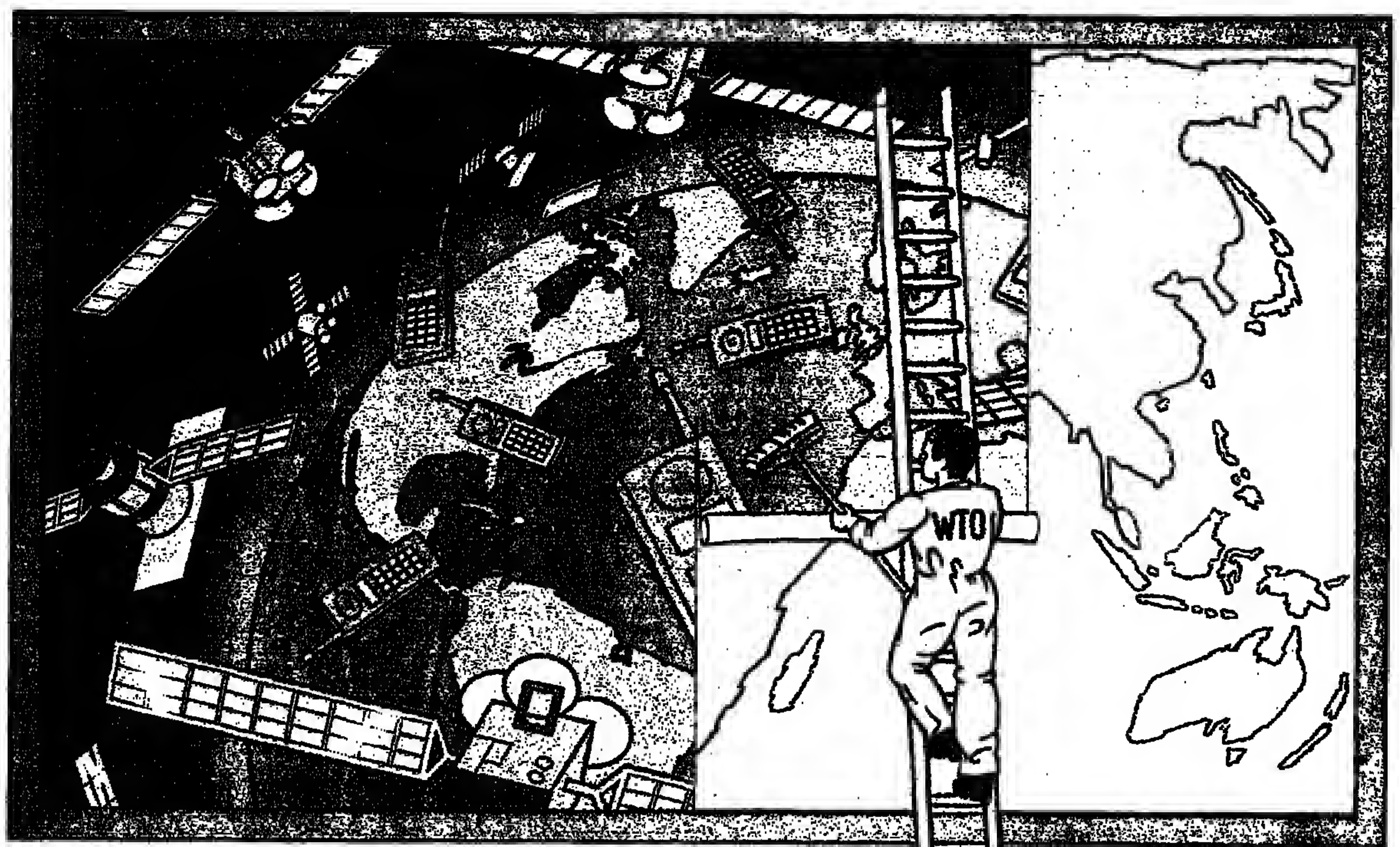
FT telecoms

FINANCIAL TIMES REVIEW OF THE TELECOMMUNICATIONS INDUSTRY

March 1997

The WTO deal offers a framework with clear, simple and stable rules. The prize could be a $1,000bn boost to the world economy over the next decade – but there will be teething troubles and the agreement could still turn sour. **Alan Cane** reports

New pact must be protected



It has been hailed as a watershed in world trade negotiations; a landmark accord in telecommunications which opens the door for equally ambitious future international agreements.

But if last month's Geneva agreement on the liberalisation of basic telecoms is not followed by comprebensive measures to police and protect the nawly established market freedoms, the full benefits may be slow in coming.

This is particularly true for developing countries hoping for substantial foreign investment to modernise outdated networks.

In Geneva, some 69 countries representing about 90 per cent of the world's $600bn telecoms services business agreed – with varying levels of commitment – to open their markets to competition, to allow foreigners to take stakes in domestic telecoms companies and to put in place fair trading legislation.

The telecoms services covered by the agreement include voice telephony, data transmission, telex, telegraph, facsimile, private leased circuits, fixed and mobile satellite systems, cellular telephony, mobile data services and paging.

The most important participants – the US, the European Union, Canada and Japan – led the way. But the list of signatories also encompasses much of the developing world.

Brazil, Colombia, the Philippines, India and Pakistan were among those making bigger commitmeots to liberalisation than ever before.

Customers, the big operators, manufacturers and world trade are all expected to benefit from the pact, concluded under the sponsorship of the World Trade Organisation. Ms Charlene Barshefsky, acting US trade representative, predicted the average cost of international calls would fall by 80 per cent over the next few years. Mr Renato Ruggiero, WTO director-general, estimated there would be a $1,000bn boost to the world economy over the next decade as a consequence of the pact.

In the short term, there will inevitably be losers, too. State-owned operators curreotly enjoying monopoly profits will suffer from the onset of competition and from declining prtces. National economies, howevar, will benefit in the long run from the growth in trade that follows cheaper, better communications, eveo if foreign rivals play a large part in their provision.

The benefits of competition in telecoms in developed markets are well established. But according to the International Telecommunication Union, the global telecoms co-ordinator: "The evidence for developing markets is more limited because the experience of competition is more limited. But the evidence which is available points to the fact that market liberalisation can be equally beneficial in developing countries, if not more so, than in industrialised nations."

At least as important is the prospect of sustained foreign investment. Developing countries desperately need funds from abroad to modernise and develop their telecoms infrastructures. The World Bank estimates that Asia alone will have to spend $60bn in the next five years on telecoms infrastructure. Projects such as WorldTel have been launched to funnel funds from investors to the developing world.

In 1996, according to estimates by the ITU, privatisations of public operators raised some $22bn, of which $9.4bn represented foreign investment.

Mr Neil McMillan, the British chairman of the talks, says a critical feature of the agreement is the commitment to a common set of regulatory principles and to an agreed disputes procedure.

This provides the means for one WTO member to challenge another if it believes the terms of the Geneva agreement are being flooted.

Mr McMillan said it would afford investors an assurance that they would be treated fairly in countries where foreign investment has traditionally not been common or welcome.

The ITU concurs: "Soma nations attempting reform have suffered from investors' lack of confidence and, therefore, experienced a shortage of capital, technology and expertise with a subsequent slower growth of their telecoms sector. What the WTO offers is a framework with clear, simple and stable rules of the game that will help overcome investor uncertainty."

Furthermora, the WTO arrangements ensure that all the signatories are bound by legally enforceable agreements and must compensate otber members if they fail to live up to their commitments: "This should provida increased stability for the international trade system as countries will be less likely unilaterally or arbitrarily to renege on commitments," says Ms Gillian Marcelle, a consultant with Analysys, a consultancy based in Cambridge, England, whicb advises governments on telecoms issues.

She points out, however, that regulation is an unfamiliar concept for many countries, both developed and developing, where state-owned operators have traditionally beld a monopoly.

Sbe is concerned about the speed with which regulators in newly liberalised markets can come to terms with their responsibilities: "The assumption is that the regulators in developing countries will have the technical resources to make those new judgments."

Her point is well taken when it is considered that the US and the UK, the world's most open big telecoms markets, have been working to develop effective regulatory principles for more than a decade.

She concludes that developing countries must have access to the resources fully to understand the implications of the level of liberalisation to which they have committed: "There is an urgent need for institutional development programmes to fund and train regulators and promote partnerships among regulators and other regulatory experts," she says.

One trade negotiator said: "There will be teething troubles. Implementing the accord will not go smoothly." But the fact that an accord has been reached at all is a considerable feather in the cap of the WTO.

With an overall aim of demolishing trading barriers as a catalyst for the expansion of world trade, it had placed particular emphasis on the telecoms sector for two reasons:

- First, because telecoms is a leading trade sector worth about $100bn last year and rankiog tbird behind health care and banking in terms of market capitalisation. Liberalisation will stimulate the modernisation of telephone switches and networks and encourage inward investment.
- Second, because telecoms is a key facilitator of cross-border trade, providing the means of matching buyers and sellers on which all trade depends.

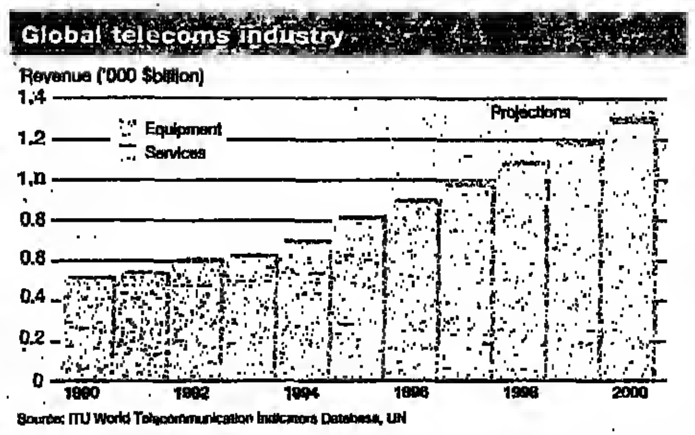
The talks have a troubled history, however. An attempt to secure an agreement in the early part of last year failed after US complaints that too few countries, the Asian nations in particular, bad made acceptable "offers" – commitments to market opening – for an accord.

In the event, the outcome of the talks was not resolved until the last moment. And the agreement could still turn sour. The 70 or so countries which signed up to the deal must now ratify the agreement – that is, go back to their own legislatures for formal approval. The deadline is the end of November this year.

There is always the risk that one of the big participants could find cause for dissent, jeopardising the whole delicate structure of mutual agreement on which the deal is built.

Trade negotiators are optimistic, however. The agreement rubber stamps, rather than initiates, a number of key market trends: liberalisation of markets, privatisation of operators and a reduction in the cost of international calls are all inevitable. The WTO agreement, however, provides both a catalyst to accelerate the changes and a framework of reassurance within which they can take place.

Global telecoms industry



Source: ITU World Telecommunication Indicators Database, UN

■ The Philippines • By Justin Marozzi in Manila

Overpopulated market

The pressure to rationalise will be keenly felt if and when a tariff war breaks out

Only a minority of operators have fulfilled their obligations

Back in 1993, PLDT, the former Philippines telecoms monopoly, did not have to worry too much about competition. Two years later, with the liberalisation of the sector finalised, new operators flocked in and the market already looks overpopulated with five cellular groups and nine international gateway providers. PLDT has since seen its share shrink to 74 per cent.

New operators make predictable grumbles about the giant company's aggressive tactics as it sees its share being progressively whittled away.

"PLDT is behaving like a monopoly anywhere would," says one foreign telecoms executive. "It's being very obstructive and our view is that the regulator should be more proactive in managing competition and ensuring a level playing field. For example, interconnection costs, both local and international, are too high and should be brought down."

The number of fixed lines nationwide doubled in 1996 but remains laggardly at an average 4.1 lines for every 100 people.

Under government regulations supervised by the National Telecommunications Commission (NTC), companies offering an international gateway facility are obliged to install 300,000 fixed lines, cellular companies 400,000 and those offering both services at least 700,000 by the first quarter of 1998. Efforts to increase the number of connections have been slowed, however, because only a minority of operators – including PLDT which installed 1.5m land lines last year – have fulfilled their obligations according to schedule.

New connections should start to show more positive results later this year as companies roll out land lines in time to honour these commitments. The target for nationwide "teledensity" is eight lines per 100 people by 1998 and 10 per 100 by the year 2000.

With the prospect of dramatically reduced accounting rates charged to US carriers, which analysts expect to fall by 15-20 per cent in 1997 and 20 per cent in 1998, PLDT has led the way in proposing a rebalancing of tariffs to the NTC, calling for a 20 per cent rise in domestic long distance rates and an increase in the basic monthly service fee of between 100 and 200 pesos.

The introduction of local metering later this year or in 1998 will further increase domestic revenues and cushion the effect of declining accounting rates.

The explosive growth in the local cellular phone market – which last year increased by 64 per cent to 796,000 subscribers – has meanwhile taken its toll on certain operators.

Last year, those groups with an eye on aggressively increasing customer portfolios suffered from a deterioration in the quality of subscribers. So much so that Piltel, the market leader, and Globe, a joint venture between Ayala Land and Singapore Telecom, were obliged to write off 85,000 fraudulent and 30,000 non-paying customers – about 40 and 25 per cent of their customer base.

"Credit investigation and credit collection have been a major problem and issue for cellular companies in the Philippines," says Mr Louie Hiado, telecoms analyst at ING Barings in Manila. "They're now working to address the problem and have made a lot of changes in their internal checks and balances as well as their billing and collection policies."

One group which managed to escape the fall-out was Smart Communications, fast emerging as the only genuine rival to Piltel with 36 per cent of the market by year-end. "From day one, we developed a strong organisation and built the proper technical, financial and credit controls into our operations. These have allowed us to concentrate on expanding the business," says Mr Orlando Vea, president and chief executive.

Analysts expect the two groups to carve out about 80 per cent of the fast-growing market between them. The scope for growth is huge. At present the Philippines has a density of 1.1 cellular phones per 100 people; the second-lowest in the region and a long way behind Hong Kong which has 17 per 100.

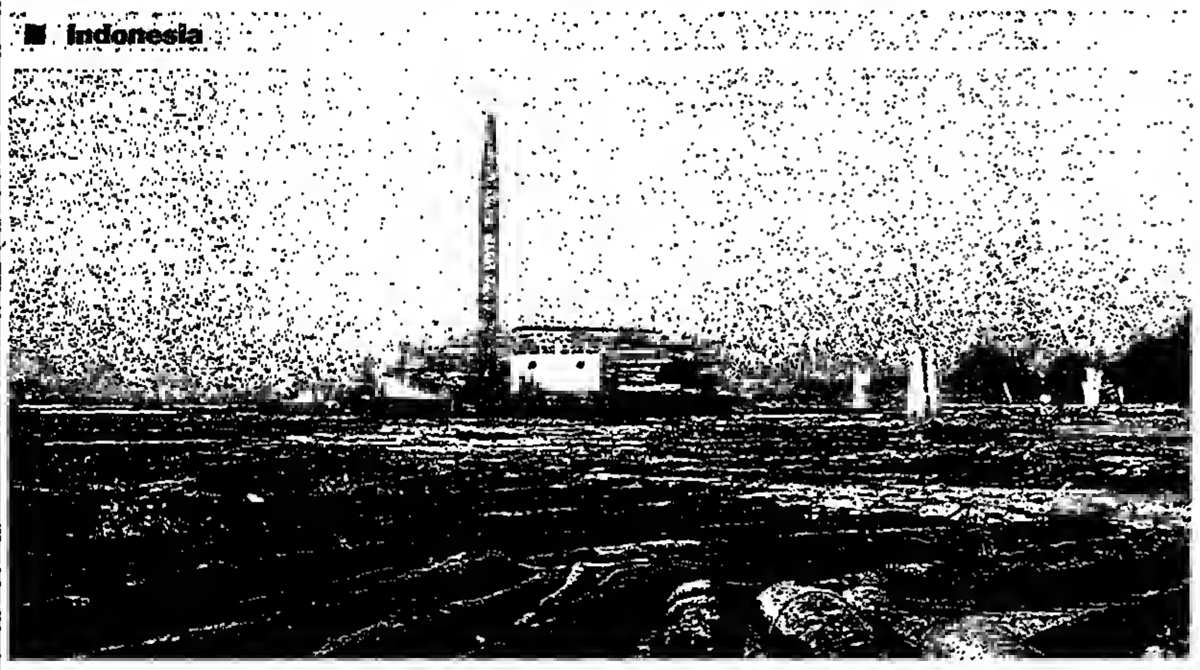
The density of 1.1 cellular phones per 100 people is the second-lowest in the region Picture: Justin Marozzi

One reason the widely expected consolidation has failed to take place in the overcrowded sector has been the emergence of powerful foreign backers to beef up local operators. Deutsche Telekom took an effective 35 per cent stake in Islacom last year; Smart is a joint venture between Metro Pacific, the local arm of Hong Kong-based First Pacific and Japan's NTT, while the still-dominant PLDT has a 31 per cent stake in Piltel. As operators pause for breath and continue installing new land lines, all-out competition in the form of a tariff war has so far failed to materialise. If and when it does, the pressure to rationalise will be keenly felt.

■ Vietnam

Earth station dishes for International Direct Dialling in Ho Chi Minh City. Australian PPT Telstra has supported business development in a host of Asia Pacific countries through direct investment in telecoms infrastructure

■ Indonesia



A $38m telecoms network project between Philips Telecom and the Indonesian Ministry of Forestry is helping to protect Indonesia's tropical forests against their two greatest threats: illegal logging and fires. Timber is Indonesia's second most important export.

The network of nearly 1,000 radio stations gives the Ministry of Forestry HQ in Jakarta instant links with its officers in remote regions. The system is designed to be simple to use and maintain in an environment with 95 per cent humidity and dense jungle. Each radio station is powered with solar-rechargeable batteries which provide sufficient power even if the sun is totally obscured for 10 consecutive days. The network has 110 remote, unmanned repeater sites – and for each of these three or four tonnes of equipment had to be carried to the top of a hill.

The worldwide Private Mobil Radio division of Philips Telecom which set up the network was acquired by Simoco International in July last year.

■ South Korea • By John Burton in Seoul

Deregulation accelerates

Korea is backing CDMA against the European GSM system as a global standard

South Korea's telecommunications industry has emerged as one of the country's fastest-growing sectors.

In response to deregulation, telecoms networks are rapidly expanding as subscriber fees fall. And the increased competition has created a new demand for Korean telecoms equipment, with domestic sales likely to provide a firm base for growing exports.

State-run Korea Telecom enjoyed a secure monopoly until the early 1990s, when limited competition was allowed first in long-distance services and then in cellular phone systems.

The past year has seen an acceleration of deregulation, particularly for mobile telecoms services as the government licensed 27 new entrants in seven telecoms sectors.

In part, the government wants to establish more domestic operators before the telecoms service market is open to wider foreign competition by the end of the decade under World Trade Organisation rules. But the move to expand mobile telecoms networks quickly is also linked to a state effort to develop telecoms equipment into a new export industry by first creating demand at home.

The programme to build a telecoms equipment industry has been based on Korea's early adoption of the US-developed code division multiple access (CDMA) technology as its standard for digital cellular systems.

Korea, along with Hong Kong, has been one of the first countries in the world to use CDMA on a commercial basis. It is betting that CDMA can mount a successful challenge against the rival European GSM system as a global standard for digital mobile telecoms, with Korea's early use of CDMA giving its manufacturers an advantage in capturing overseas orders as other countries adopt the system.

The gamble appears to be paying off. About half of US mobile telecoms operators are opting for CDMA and Japan recently decided to use the system. Other countries are expected to follow suit.

Korea's two cellular phone operators, Korea Mobile Telecom and Shinsegi, have been using CDMA since last year. A new and cheaper mobile phone system, known as personal communications service (PCS), will also rely on CDMA when three rival operators go into service next year.

Other markets for telecoms equipment makers are being created with the expansion of several wireless telecoms services, including paging and second-generation cordless telephone services and the trunked radio system. A third operator has been allowed to compete in long-distance call services against the current providers, Korea Telecom and Dacom.

Growth in these services has been helped by the government's decision to slash subscriber rates and deposit fees. This is starting to squeeze the normally high profits of such established operators as Korea Mobile Telecom as they lose their monopoly status.

The number of subscribers for cellular phone and PCS services is expected to increase from 3m in 1996 to nearly 8m by the year 2000, while the penetration ratio will climb from 6.5 per cent to 16.3 per cent.

This is predicted to result in a 17 per cent annual growth in the domestic telecoms equipment market from Won7,000bn in 1996 to Won12,000bn in 2000, which is well above the expected global market growth rate of 2 per cent during the same period.

In addition, Korean telecoms makers are likely to enjoy early growth in exports of CDMA equipment as other countries adopt the system.

"A virtuous circle is being created for Korean telecoms manufacturers, but at the expense of domestic telecoms operators," said one analyst, referring to the government's desire to drive down subscriber fees so that telecoms services will expand to create economies of scale for manufacturers.

Leading Korean companies in making CDMA equipment include Samsung Electronics, LG Information & Communications and Hyundai Electronics. The importance of the telecoms market for these companies is becoming more evident as their other businesses, such as semiconductors, suffer a sharp fall in profits.

But they will face increased competition in the domestic market as foreign manufacturers link up with other Korean companies, such as Motorola-Daewoo, Northern Telecom-Hanhwa and Lucent-Sungmi in the production and marketing of CDMA-based PCS equipment.

■ Malaysia • By James Kynge in Kuala Lumpur

Stage set for years of competition

Each of seven new operators has targeted areas where it feels Telekom Malaysia has weaknesses

So much is changing in Malaysia's telecommunications industry that certainties are to be cherished.

One of these rare certainties is that Malaysia wants to become a telecoms hub in south-east Asia. This ambition brings it into competition with Singapore, its neighbour, setting the stage for years of competitive pricing.

Kuala Lumpur also realises that if the government's top priority industrial project – the futuristic "multimedia super corridor" – is to take off, the nation must have a telecoms infrastructure which is as efficient and cheap as any in the world.

These broad goals provide the key to understanding the tumultuous changes in Malaysia's telecoms industry – and to identifying future trends.

In July last year, the government reversed a policy of seeking consolidation in an industry which it had insisted for months was overcrowded. Seven basic network operators are now competing in a country of 20m people.

Each of the new operators has targeted areas where it feels Telekom Malaysia, the former telecoms monopoly and the country's largest company by market capitalisation, has weaknesses. Making life tougher for Telekom, several of its new competitors have forged alliances with foreign partners able to supply expertise and customers overseas.

Many of the newcomers, owned or backed by heavyweight Malaysian corporations, have plans to raise capital this year for ambitious infrastructure expansions ahead of equal access, scheduled for January 1, 1999.

Swiss Telecom, Switzerland's national operator, bought a 30 per cent stake for M$710m last year in Mutiara Telekom, a local company with fixed-line, cellular and international gateway licenses.

Observers say that with Swiss Telecom's help, Mutiara stands a good chance of finding overseas customers to put its new satellite earth station to use. Through its alliance with the international carrier Unisource, Swiss Telecom hopes to strike agreements with overseas telecoms companies to use Mutiara's satellite facilities for calls not only to Malaysia but also to other countries in the region.

But perhaps the most formidable opponent for Telekom is Technology Resources Industries, in which Deutsche Telekom took a 21 per cent stake in June last year for an estimated $570m. TRI, through its subsidiary, Celcom, is already the industry leader in cellular telephony. The German company plans to help TRI develop its international business by forging relationships in much the same way as Swiss Telecom hopes to do for Mutiara.

Time Telekom, an affiliate of the well-connected Renong Group, is planning to float its shares some time this year to raise capital to expand an already impressive fibre optic network, a company executive said. Time's fibre optic "backbone" runs north-south and east-west across Malaysia, hugging main roads. The company has 10,000 fixed-line subscribers, mainly in the high-margin corporate sector of the market. It also runs a cellular service.

Binariang, an unlisted company 20 per cent owned by "Baby Bell" US West, is strong in mobile telephony and its prospects look promising in another niche area. Binariang owns both of Malaysia's telecoms satellites and is associated with the country's first satellite broadcaster. It has begun laying fibre-optic lines to deliver satellite TV, basic telephony and data services to houses. Customers are also receiving "multimedia" bills for all three services, the company said.

Mr Chan Chee Beng, Binariang's executive director, said that the company hoped to raise at least M$1bn in the third quarter of this year, mainly to finance the roll-out of its fibre-optic network.

Binariang forsees 700,000 subscribers for its GSM digital mobile phone service by the year 2000, up from 150,000 at the moment. In its fixed-line business it expects its number of clients to grow from 5,700 to 500,000 by the year 2000.

Mobile telephony and international direct dial tariffs are set to fall over the next few years as competition increases. Reductions in IDD charges, in particular, could be steep and and are likely to keep pace with price cuts in Singapore and elsewhere.

Analysts say the government would be unlikely to seek to arrest any slide in IDD tariffs because it realises that to do so might deter information technology and other companies from investing in Malaysia.

Mr Mohamed Said Mohamed Ali, chief executive of Telekom Malaysia, says that although margins are set to fall considerably, the IDD business will remain profitable for the company in the forseeable future.

And even as Telekom Malaysia must fight new competition from all sides, the company is still being saddled with "social" obligations, such as laying lines to remote, unprofitable areas.

Another key question remains unanswered. Telekom has been given the job of rolling out the fibre optic network for the "multimedia super corridor", a 750 sq km zone near Kuala Lumpur which, it is hoped, will become a hub for information technology in Asia.

The corridor's telecoms infrastructure will cost about M$5bn to install but it is as yet unclear whether Telekom will have exclusive rights to all business within the corridor, or whether – in line with the equal access rule – newcomers will be allowed to compete on an equal footing.

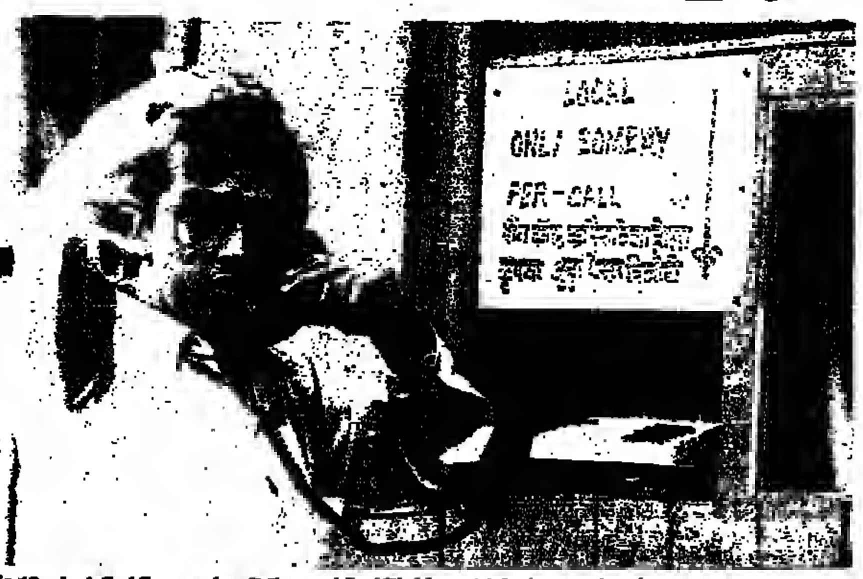
The first option would create the kind of monopolistic conditions the government has acknowledged as inimical to efficiency, but the second option might place an unfair burden on a company already beset with competitive pressures, observers said.

In the end, executives and analysts say, Malaysia's market is probably not large enough to support the current diversity of operators. Mr Chan said that the fierce competition which is likely to arise from equal access could result in a consolidation among competitors.

■ India • By Mark Nicholson in New Delhi

Progress on a bumpy road

With a telephone density of only 1.3 lines for every 100 citizens, India has a long way to go in developing its telecoms infrastructure



India's 12m installed lines makes it the world's 14th-biggest telephone network *Picture: Tony Andrews*

It will do nothing for the serenity of one of the world's great wonders, but is a sign of the Indian times: you can now use a cellphone at the Taj Mahal.

It has been, and continues to be, a bumpy ride, but India's highly ambitious attempt to introduce private and foreign investment into its chronically under-supplied telecoms sector is making progress.

The progress is critical, with India's telephone "density" at just 1.3 telephone lines for every 100 citizens, among the lowest in the world – although India's 12m installed lines makes it the world's 14th-biggest telephone network.

According to the recent and authoritative *India Infrastructure Report*, a government-backed document commissioned to assess the cost and prospects for all infrastructure into the next century, demand for basic, fixed-line services is expected to rise to 31m lines by 2001 and 64m by 2006. Cellphone demand is seen rising to 2m by 2001 and 5m by 2006.

The report estimates the total investment required at $53bn by 2006, of which $28bn was seen coming from the private sector. It was this funding gap which prompted the privatisation programme four years ago.

Policymakers concede that a programme to attract separate competitive bids for 20 circles (roughly analogous to India's main states) to provide both private cellular and basic telephone services – in competition to the previous state monopoly – has been flawed and often muddled. But cellular services are now well established in India's four biggest cities and networks are creeping up in states both richer, such as Maharashtra and Gujarat, and poorer, such as Uttar Pradesh (in which the Taj stands).

By the end of last year, the eight competing private cellphone operators in Delhi, Bombay, Madras and Calcutta had a total of 250,000 subscribers, just over a year after the start of services.

Private provision of basic, fixed-line services is proving slower, stalled by long and only partly resolved rows between the nine successful consortia in the 13 circles for which licences have been awarded. These have chiefly been over the initial size of interconnection fees demanded by the Department of Telecoms (DoT), the state provider.

After first seeking annual fees of Rs136,000 ($3,798) for each 30-voice circuit (2 megabites per second), the DoT in January brought the fees down to Rs54,000 a circuit. This was enough to prompt two of the nine consortia – Bharti Telenet in the state of Madhya Pradesh and Reliance-Nynex in Gujarat – to agree to pay the first instalment on their licence fees. The other seven licencees are continuing to negotiate with the government over the issue.

Telecoms analysts believe pressures on both government and private operators will see the row resolved, partly because the Indian government has budgeted for the receipt of Rs25bn in licence fee payments in the budget for the fiscal year which ends this month and an additional Rs36bn in the budget for next year – sums critical to the government's attempts to meet tight fiscal deficit targets.

The Indian-foreign joint venture consortia concerned, says one Bombay-based analyst with a foreign bank, have meanwhile long taken the view that they would enter the fray and fight unfavourable terms and conditions thereafter. "The attitude has always been: 'We'll jump into the water and then learn how to swim; we'll keep fighting and something will happen,'" he says. Moreover, analysts also point to a recent rush of government moves to aid the financing of telecoms projects. These include government approval for telephone licences to be treated as assets, permitting them to be used as a charge against financing.

The ceiling on permitted foreign commercial borrowings (a ceiling in place until India moves to full convertibility on its capital account) for the sector has been raised. And this year, the government also included telecoms in a list of infrastructure industries eligible for tax exemptions and incentives, including a tax holiday for five years and a 30 per cent profit tax exemption for the succeeding five years.

By the end of last year, the eight competing private cellphone operators in Delhi, Bombay, Madras and Calcutta had a total of 250,000 subscribers, just over a year after the start of services. Sema Group Telecoms recently opened an office in Calcutta to support growth of its mobile telephone customer care and billing

However, while giving with one hand, the government also appears to have taken away with another. The DoT last month unexpectedly announced that it was raising the call charges from fixed lines to cellular phones to Rs28 for a three-minute call – from a previous rate of just Rs1.25. The DoT move was inspired by a desire to prevent cellular operators from bypassing its fixed-line network for long-distance but intra-state calls, a prime source of revenue for the state operator.

The move prompted all the private cellular licencees to take the DoT to court, arguing that the post-facto change was unfair and had undermined the business plans of all operators. The supreme court in turn this month referred the issue to the newly constituted Telecoms Regulatory Authority, which is due to be granted formal statutory powers in the present parliamentary session.

Resolving this fresh hiccup in India's telecoms privatisation programme will therefore prove the TRAI's first task – and the first test of the degree to which it can serve as a truly independent regulatory authority.

Emerging markets

FT writers examine developments in Asia Pacific, Africa, South America and eastern Europe

■ China • By Tony Walker in Beijing

Foreign investors face frustration

International companies feel they have no choice but to keep plugging away at this difficult market

Alcatel supplied China's first GSM network in Jiaxing. The number of mobile users is expected to reach 20m by 2000

China's telecommunications sector is one of the fastest-growing areas of the economy, but foreign investors seeking a share of a lucrative sector continue to be frustrated, although there are signs of improvement.

Earlier this year, a spokesman for the Ministry of Posts and Telecommunications (MPT) said restrictions on overseas involvement in selected areas might be eased. The selected areas include ventures offering electronic mail and voice mail services, electronic data interchange, videotext, on-line database retrieval as well as storage and forward fax.

"It would be wrong to say we have liberalised these services already, but we are making schedules of which year to liberalise which kind of value-added service," a spokesman was quoted as saying.

Foreigners would almost certainly be restricted to minority shareholdings in these ventures, and other strictures would apply such as a requirement that a majority of staff be Chinese nationals.

China's steadfast position has been that it will not allow, for the time being, foreign equity participation in actual network operations, but international companies are seeking to position themselves for the liberalisation of the market.

Some, such as Hong Kong Telecom, majority-owned by Cable and Wireless, have continuing co-operative ventures with the MPT – the two united to construct a Hong Kong to Beijing cable – which may be converted to partnerships in network operations. Other companies have consultancy arrangements to help build and manage networks, or are equipment suppliers.

Ameritech and McCaw International of the US, Singapore Telecom and Siemens-Deutsche Telekom have formed joined ventures in the services area, notably in the provision of cellular phones – the fastest-growing telecoms sector. Ameritech, for example, has agreed to construct a 10,000-subscriber digital cellular system in Taiyuan, Shanxi province, south-west of Beijing.

Ameritech has invested $20m in the project which gives it an 80 per cent stake to be reduced to 49 per cent over the 15-year agreement. Such ventures are risky, however, because there is no law which is directly applicable. Ameritech has entered a "grey area" in the hope that further developments in the sector will protect its investment.

Telecoms specialists believe more time will be needed before China is willing to open its telecoms sector even wider, the recent World Trade Organisation accord on liberalising telecoms notwithstanding.

One of the barriers to foreign participation is the absence of a legal framework. Chinese law does not permit foreigners to take equity in mainland phone companies, and the MPT which enjoys near monopoly control would almost certainly resist a new law. However, WTO pressures seem certain to force China to open its market sooner or later.

Beijing sought to inject competition into the market by allowing the formation in 1994 of a second phone operator, China Unicom, but the newcomer has been beset by teething problems, exacerbated by lack of co-operation by MPT which operates China's network and is also the government regulator.

Unicom's aim of capturing 10 per cent of China's long-distance telephone market and 30 per cent of its mobile phone traffic by 2000 appears optimistic, judging by its stumbling start.

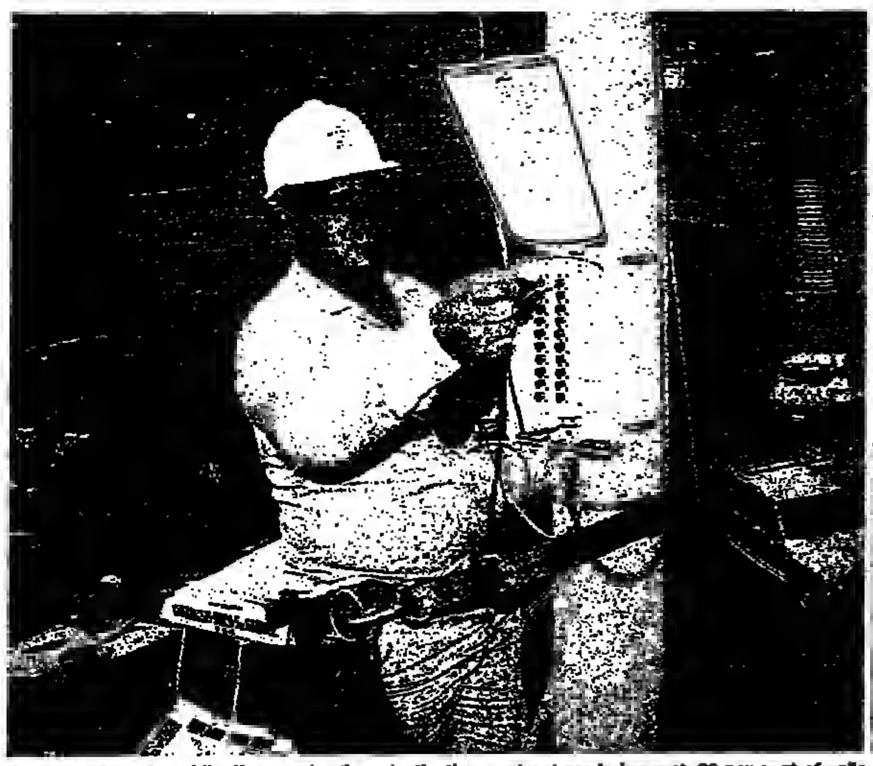
But in spite of policy and other constraints, China's telecoms sector is continuing its extraordinarily rapid transformation. The number of telephone subscribers will increase by 15m this year, according to a recent Xinhua report.

Teledensity, the number of telephones per 100 subscribers, will rise to an average of 7.4 this year, compared with 4.66 in 1995. Switching capacity will increase by 17m lines.

China plans to have 123m lines and switching capacity of 170m by the year 2000. Investment of Yn500bn ($60.24bn) is envisaged during the Ninth Five Year Plan (1996-2000). Teledensity in urban areas will rise to 25 per cent this year.

There will be further rapid growth in the number of mobile phone subscribers this year – up to 10m by the end of 1997, compared with 6.8m at the beginning of this year.

Those numbers are expected to double to 20m by 2000. It is perhaps no surprise that international telecoms companies feel they have no choice but to keep plugging away at the difficult China market – the stakes could hardly be higher.



Quality and service obligations under the privatisation contract are being met: 99 per cent of calls are now completed as dialled and 93 per cent of reported faults are repaired within 24 hours Pictures: Telefonica

Cellphone madness makes sense

Long-suffering callers can side-step the national waiting list for fixed lines

It was the day that Entel launched its cellular telephone service and thousands wanted to take advantage of the low-cost promotion. The queues stretched several blocks along the sunny street in La Paz.

"It's a cellphone madness," said Mr Giovanni Ruggeri, the Italian who now runs the former state-owned telecommunications company. "We've had 300,000 inquiries in two months. It was obvious there's a market and a need, but the explosion of interest caught us rather off balance."

Although the Italian national flag flies over its new La Paz headquarters, Stet of Italy – the new joint owner and operator of the Bolivian telecoms company – has chosen to retain the name of the former state monopoly it acquired for a surprisingly large sum in the mid-1995 auction. This was not, strictly speaking, a privatisation but "capitalisation", Bolivia's idiosyncratic alternative mechanism by which a "strategic partner" bids for just 50 per cent – plus full management control – of a state-owned company.

Up against the Italians were Spain's Telefonica and MCI of the US. But Stet's massive $610m knocked spots off the Spaniards' offer of $162.5m and was more than double MCI's bid.

"Stet had to win," says Mr Ruggeri. "Our aim is to reinforce the presence we already have in Argentina and Chile. Bolivia's market is undeveloped but it's strategically important."

With the $610m injection from Stet, Entel is now Bolivia's largest company in terms of capital. Mr Ruggeri calls the capitalisation scheme, which encourages the new partner to commit investments rapidly, "ingenious and very interesting". Last year alone, Stet put $160m into expanding telephone services: $14m went into expansion of existing lines, another $14m into a long-awaited fibre optic network and $15m on installation of public telephones.

But the biggest slice of Stet's 1996 investment (almost $67m) went on setting up a cellular telephone system, an area of the business in which it has wide experience in Europe. Within two months of the launch, it had signed up 16,000 clients, more than pioneering Telecel – which has the other band – had notched up in five years of operations.

Cellular telephones are a particularly welcome innovation for Bolivia's long-suffering callers. Under the pre-capitalisation system, a state-owned Entel monopolised long-distance traffic, both national and international, while 20 co-operatives in the biggest towns and cities were responsible for local services. To get a telephone line, it was necessary to become a "partner" in the co-operative at a cost of about $1,500, and the national waiting list for line installations (about 240,000) was almost equivalent to the number of lines in service.

While the occasional local co-operative – notably Cotas in the eastern city of Santa Cruz – functioned efficiently, most failed to invest and gradually succumbed to inefficiency if not outright corruption. By the time Entel was offered to private sector bidders, there were only 3.8 lines per 100 Bolivians; almost the lowest level of telephone penetration in the continent.

Although the new telecoms law requires the co-operatives to install new fixed lines or go under, for the time being a cellphone is the option for many Bolivians. In a country of vast distances and poor physical infrastructure, "the cellphone has its own logic in the development of society," says Mr Ruggeri.

Capitalisation has brought a number of contractual obligations. In return for a five-year period of exclusivity over long-distance and fixed-line telephony, Stet must install a minimum of 5,000 public telephones and provide a service to each of 1,099 identified rural communities with more than 350 inhabitants. So far, the company says it is ahead of its investment plan.

And in a development which could provide some real competition for Stet, Cotel – the co-operative which provides telephone services in La Paz – is considering a change in statutes, to become a limited company.

Mr Fernando Dips, Cotel's general manager, says a capital increase of $60m-plus is necessary if Cotel is to meet its legal obligations to expand coverage. It could open the door for an approach by a foreign investor who wants a foot in the door before Stet's period of exclusivity expires in the year 2001.

■ Peru • By Sally Bowen in Lima

A model for privatisation

Peru now has 32,000 public phones: double the number it had two years ago

Since winning control in mid-1994 of what had been Peru's state telecommunications monopoly with a spectacular $2bn shut-out bid, Spain's Telefonica has invested and restructured at a dizzying pace.

Operating revenues increased 17 per cent in 1996 over 1995, Telefonica's first full year in business in Peru, and analysts predict further revenue growth of about 30 per cent this year and 20 per cent next.

Before privatisation in 1994, the average 3.3 telephone lines per 100 inhabitants was the lowest level of penetration in any big country in the hemisphere. Telefonica has already pushed the figure to 5.9 (some 1.4m) per 100 today, with 85 per cent of all services digitalised. And by the end of 1999, when the five-year exclusivity period expires, that figure should be close to 10.

All other indicators show similar dynamism. Peru now has 32,000 public telephones, double the number two years ago, while subscribers to Telefonica's cellular telephone service have more than quadrupled to 130,000.

Most spectacular of all has been growth in cable television: subscriptions have leapt from 7,000 at the start of 1995 to 101,000 today.

At the same time, efficiency has improved markedly. Through an incentives and voluntary redundancy programme, the number of employees has shrunk from 8,900 to 6,200, meaning the ratio of lines in service per employee has risen from 92 two years ago to a more respectable 228. Quality and service obligations under the privatisation contract are also being met: 99 per cent of calls are now completed as dialled and 93 per cent of reported faults are repaired within 24 hours.

Peru's telecoms privatisation is recognised as having been a model for encouraging private sector participation. And even though they were widely considered to have paid well over the odds for Peru's Entel-CPT, the Spaniards apparently have no reason to regret their investment.

"You have to ensure the operator will make money," says Mr William Laurent, telecoms analyst at Robert Fleming Securities in London. "Peru put a rate rebalancing programme in place before it asked for bids, and also set up a regulatory authority – Osiptel – which genuinely works. That explains why Telefonica was not afraid to bid so much."

In return for several stringent targets, Peru's privatisers handed Telefonica a five-year monopoly over long-distance communications, national and international, as well as over fixed-line telephony.

But in cellular and cable television services, paging and call-boxes, however, Telefonica already has one local competitor who has recently given notice of big battles to come. Tele 2000 was set up in the late 1980s by Mr Genaro Delgado Parker, a Peruvian media tycoon, who took advantage of a legal loophole to apply for, and win, the alternative cellular telephone band. His company, which has a cable television affiliate, grew spectacularly – on Mr Delgado Parker's own estimates – from its $1m capital in 1991 to $50m two years later. In 1993, Tele 2000 made a $40m international issue of convertible bonds but, since then, has lacked the capital (and, some say, the management skills) to fulfil an ambitious $120m investment expansion plan for 1996-98.

Those problems now seem to have been resolved. In January, after months of talks, Bell South paid $112.2m for a 58.7 per cent stake in Tele2000. That leaves Bell South and Mr Delgado Parker with about 90 per cent of the company; the rest trades locally and on the New York Stock Exchange.

Local analysts expect that Bell South's entry will hit Telefonica's current 70 per cent share in Peru's cable television and cellular telephone market. That will drop to between 55 and 60 per cent, they estimate.

"Despite the efforts being made by Telefonica, there's still an enormous deficit in the Peruvian market," says Mr Delgado Parker. "Competition between two or three companies is perfectly appropriate and we think we have the chance of capturing a good percentage of the large future market."

Another large international cable TV operator, United International Holdings (UIH) of Denver, has also gained a recent toe-hold in the Peruvian market. Late last year, for a minimal outlay, it acquired one of the two small cable companies in the southern city of Arequipa. By the end of next year, UIH plans to have spent $15m on new equipment, laying fibre optic cable and increasing the number of its subscribers more than 10-fold.

UIH will be limited for the next three years to provision of cable television, Internet services, data and voice transmissions. It plans to use those as a base network for offering standard telephony services when the Peruvian market opens to full competition in 1999.

Telecoms in the high sierra of the Andes: some 85 per cent of all Peru's services are digitalised

Telefonica, however, can be expected to put up a strenuous defence of its lucrative Peruvian patch. Mr Jaime Villalonga, president of Telefonica de España, said in late February that instead of expanding into Central America as had originally baen planned, Telefonica will now concentrate on consolidating its existing presence in four Latin American markets: Argentina, Chile, Brazil and Peru.

"Telefonica del Peru is building very quickly," says Mr Laurent. "By 1999, it should be well ahead of any competition."

■ Sub-Saharan Africa • By Joel Kibazo

The last frontier

Analysts believe mobile communications will be the linchpin of Africa's telecoms future

Africa has been left behind other emerging global telecommunications markets but as those in Asia and Latin America mature, many now regard the continent as the last frontier that must be conquered.

According to a recent FT Telecoms and Media Publishing report*, in 1996 the total official waiting list for Africa's 55 countries amounted to about 4bn and this was growing by at least 4 per cent a year.

Individually, Ghana, the first sub-Sahara country to gain independence, perhaps best illustrates the true scale of the problem.

While its economy has grown by an average 4.7 per cent a year since 1985 and its population by about 3.1 per cent a year to its present 17m, the number of available telephone lines has remained practically unchanged.

According to figures from Ghana's Ministry of Transport and Telecommunications, at the end of 1995 the telephone penetration rate was only 0.37 lines per 100 inhabitants.

This has not only created a backlog of more than 300,000 people waiting to be connected but, has also led to a thriving black market in telephone lines.

The situation is said to be little different in many other African countries.

"With the traditional average cost of African direct exchange lines ranging up to more than twice that of Europe, such unsatisfied demand represented a direct exchange line market alone of about $10bn and growing," said the Telecoms report.

Analysts project Africa's population may surpass 1bn within the next 10-12 years and Mr Carl Edgar Law, who compiled the report, says a teledensity of even 10 per cent would create a requirement of nearly 90m lines over that period.

"That teledensity will not be reached, but there is certainly a market for at least 19m lines over the six-year period 1994-2000 at an investment cost of $3bn-$5bn a year," he says.

Several of the world's leading telecoms groups have not been slow in recognising that potential for lucrative gains and over the past five years, African countries have vaulted into the advanced service digital age from the dark world of a now obsolete electromechanical switching base.

Analysts cite the twin forces in many African countries of economic restructuring and the development of faster, cheaper, less power-hungry equipment as the main reasons for the shift.

The analysts believe mobile communications will be the linchpin of Africa's telecoms future.

The Telecoms report says: "When both cellular technology and cordless telephony technology are used in the fixed wireless mode, it becomes possible (only since the late 1980s-early 1990s) to provide thousands of fixed-line connections within weeks, at much lower cost than traditional copper-based fixed lines."

Many of the changes will take place in a more amenable environment in which the private sector will be the driving force.

Last December, Ghana sold a 30 per cent strategic stake to a company controlled by Telekom Malaysia and also ceded management control.

In Ivory Coast, a consortium led by France Telecom clinched a 51 per cent stake in the country's national carrier.

Senegal sold a 33 per cent holding in Société Nationale des Telecommunications (Sonatel) to an international consortium led by Telia of Sweden for $134m.

And the sale of 30 per cent of the equity in Telkom, the South African national carrier, is expected to be one of the biggest international offers out of Africa this year.

Each week brings a new signing of contracts for expansion or introduction of mobile telephony in some corner of a continent that has joined the race to get connected.

**African Telecoms Markets, published by Financial Times Telecoms and Media Publishing, Maple House, 149 Tottenham Court Road, London W1P 9LL*

■ South Africa • By Mark Ashurst in Johannesburg

Sell-off will fund improvements

The part-privatisation is intended to raise R5bn-R6bn, most of which will fund new infrastructure

It has become routine for politicians to tout the prospect of recovery in Africa made possible by the rapid evolution of information technology. But despite the potential of value-added services such as the Internet to build new markets, stimulate business, and improve education and health care, that prospect remains largely Utopian.

Telecommunications infrastructure is in such short supply that there are more telephone lines in Manhattan than in all of sub-Saharan Africa.

The sale of 30 per cent of the equity of Telkom, the South African utility with a monopoly of public switched line services, to an international telecoms group is the most significant move yet to redress that shortage.

A final short list of three candidates for the equity stake was compiled from eight prospective bidders who carried out a due diligence test last year. SBC, the US group that was formerly Southwestern Bell, and Malaysia Telecom have submitted a joint bid in the face of competition from France Telecom. Negotiations between the government and the consortium are continuing after Deutsche Telekom, initially thought to be a front runner, abandoned its bid before the February 28 deadline. The winner will be announced in April.

South African schoolchildren learn how a switchboard works – with help from a BT engineer

This part privatisation is intended to raise R5bn-R6bn, most of which will fund the roll-out of new infrastructure. The deal is also intended to revitalise Telkom by enabling the transfer of skills and technology.

The development challenge is huge, but telecoms policy in South Africa is made more acute by the legacy of apartheid. The ruling African National Congress took office in 1994 with a pledge to provide affordable universal telephone services on demand.

Anything less, stated their election manifesto, was an infringement of the citizen's basic rights.

That is a daunting pledge, but simply explained by a single statistic: in South Africa today, there are 60 phone lines for every 100 whites, compared with less than one for every black. The rapid expansion of the telecoms infrastructure is both a prerequisite of faster economic growth, and a visible measure of the government's progress in addressing the legacy of apartheid.

To that end, the regulatory framework for telecoms has been reinvented. An industry previously controlled by a civil servant, the Postmaster-General, is now answerable to the South African Telecommunications Regulatory Authority, an independent regulator which was constituted early this year.

Three new licence categories have been introduced – public switched telecoms services, transmission of radio frequencies and value added network services – and a timetable for further liberalisation is likely to be approved by parliament during its current session.

Value-added network services – including the Internet, paging and data transfer – have already been opened to new entrants, and a third cellular operator may be licensed later this year to compete in the fiercely competitive cellular market.

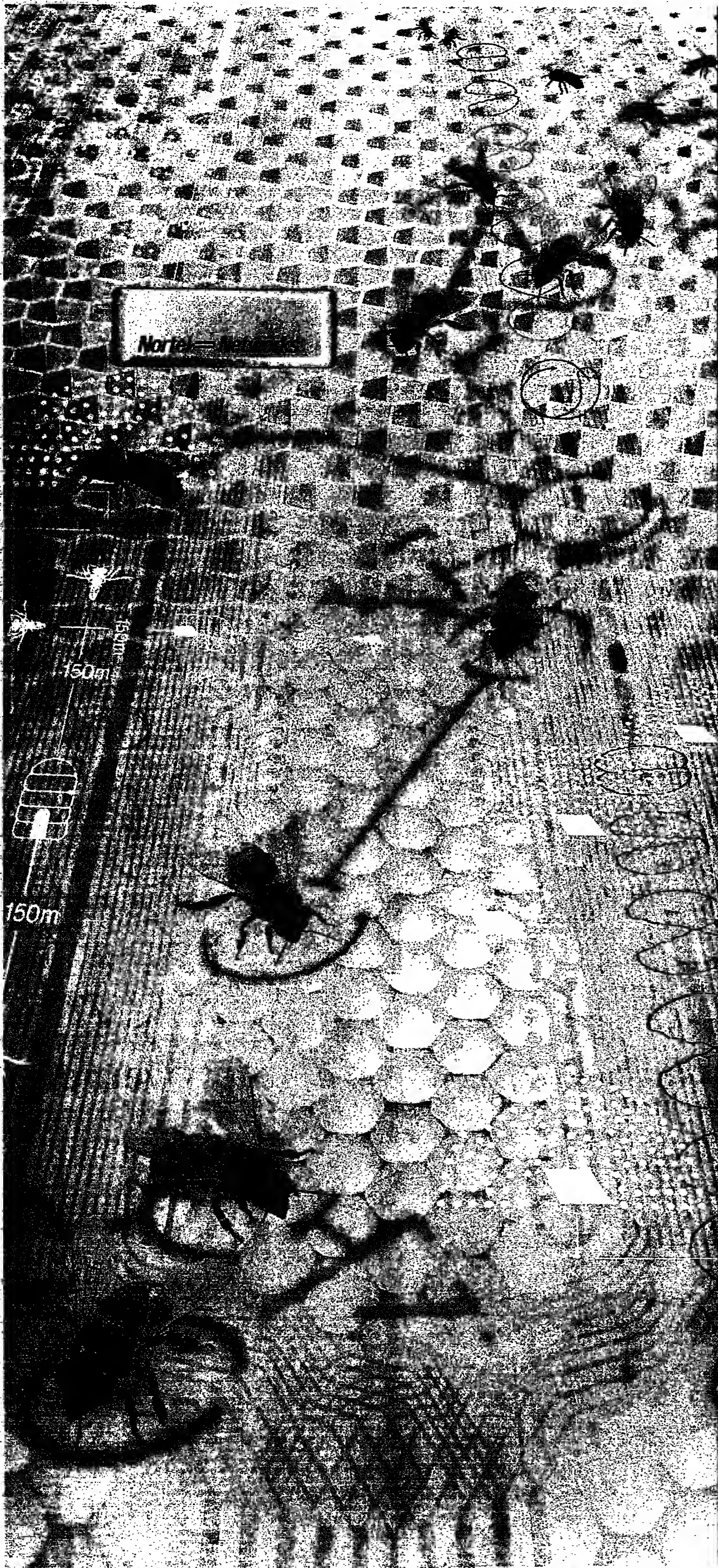
But Telkom's monopoly of the public switching network has not been lifted, and could be extended for five years if the utility achieves its development targets. If 90 per cent of schools, clinics, and previously underserved communities earmarked by the government are connected to new lines within four years, Telkom could be rewarded with an extra year of exclusivity. This bonus is subject to a commitment to roll out 3m new lines, and underperformance will be penalised by dollar-denominated fines.

The reason for such an incentive is apparent from Telkom's poor record of providing new infrastructure. In 1995-96, Telkom made only 160,000 new connections; well short of the 800,000 new lines a year required to meet the government's target of 4m new lines within five years.

The utility continues to subsidise local calls with profits from the more lucrative international market, where it is especially vulnerable to foreign competition. And a further deterrent for a foreign partner is Telkom's R9bn debt, which devours nearly half its operating profits and effectively bars the company from raising new cash from the capital markets.

Moves to rebalance Telkom's international and local tariffs, a precursor to any open market, are under way. But arguments for instant competition to bring down prices in the existing consumer market have been rejected in favour of measures to safeguard the return on capital for the foreign shareholder.

Bidders have suggested that premature competition will encourage cherry-picking of lucrative markets at the expense of new roll-outs. But having lobbied this point effectively among policymakers, the test of that argument will be South Africa's emergence as telecoms hub for the entire continent.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■ **Hungary** • By Kester Eddy in Budapest

Hot competition ahead

The gloves will be off when Matav's concession on international voice traffic ends in late 2001

Newcomsrs to Hungary used to be easily identified by their complaints about the phone system; it crankiness, the imperviousness of the telephone company to complaints and the extra cost of a flat with a line that worked.

The locals, having applied for a phone about the time that Ronald Reagan (or was it Carter?) was elected, did not waste their breath. They would talk about wine, babies or the price of tram tickets – anything, but the phone service, or lack of it.

Until about five years ago, that is. Then, Matav, the then monopoly national telephone company, began to get its act together and attack the waiting list of 800,000 repressed telephone users. In five years, Matav has expanded the network from 1.3m to 2.1m lines, abolished manual exchanges, and digitised 62 per cent of its network.

At the same time, it has been partly privatised and has had its service area cut by 25 per cent as part of a government strategy to introduce competition. Matav installed a record 300,000 lines last year and promises phones for the last, long-suffering, 200,000 on the waiting list by mid-summer. The level of coverage now exceeds 28 lines per 100 residents in Matav areas nationwide, and 43 per 100 in Budapest.

There are complaints, of course. Several hundred households were cut off for three days in Budapest's fashionable 12th district last summer while a new exchange was installed.

"We got a notice saying it would happen, but not when," said one resident, a self-employed businessman. Worse still, he was incensed to discover that his phone continued to give a normal ringing tone to incoming callers in the cut-off period, infuriating potential clients. A Matav spokesman admitted there had been problems with automatic information "because of the enormous number of changes and limited capacity."

However, back in the early 1990s, salvation was available for frustrated, would-be callers, in the form of mobile phones. For those with the money – and muscle – to lug the old sets around, Westel Radiotelefon, a joint venture between US West and Matav, began a 450MHz service in 1989. But competition arrived in force in 1994 with the advent of GSM 900 services.

The market leader, Westel 900, owned by Matav, US West Holland and IFC, now has 225,000 clients and is investing Ft13bn ($74m) this year to further strengthen services. After a slower start, arch-rival Pannon GSM won 100,000 new clients last year to achieve a total of 170,000; a 43 per cent market share.

Pannon, a Dutch-Scandinavian domestic consortium, is targeting 308,000 users by the end of this year, and plans an annual investment of $100m up to the end of the millenium. "It's not impossible to have over one million customers by the end of 2000," said Mr Gussi Emri, Pannon chief executive officer, recently.

With the 450MHz customer base virtually static at 72,000, both GSM companies are aiming for growth with value added services, such as voice mail and data transmission.

Matav, its basic network almost complete, is also switching attention to improved quality and products, such as ISDN (integrated services digital network) and managed lease lines. Matav plans to continue investment levels of $300-$400m annually to boost these services, and fight off the specialised providers which have carved out niche markets in recent years.

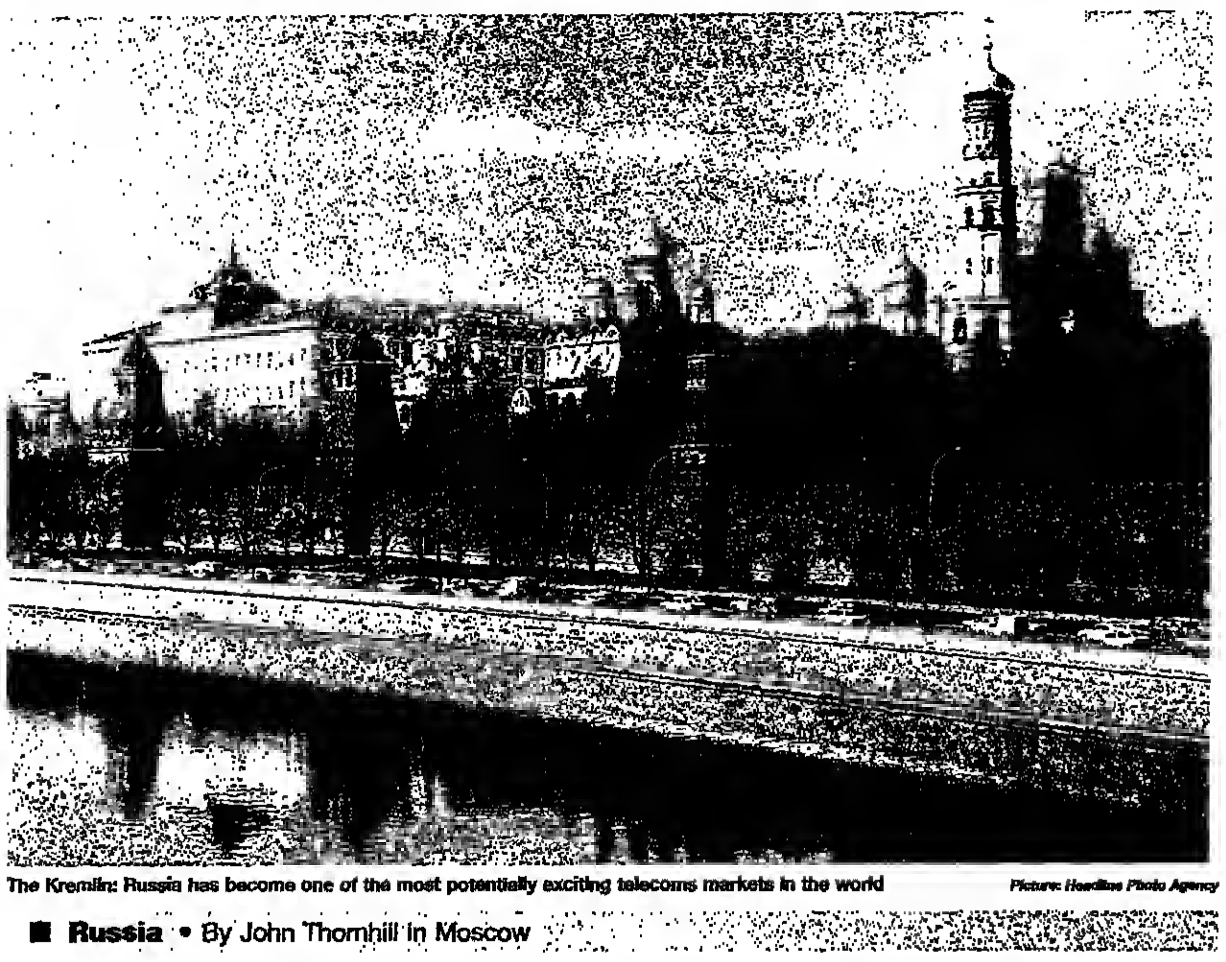
Hungarodigitel, for example, provides data transmission services for the largest Hungarian bank OTP, and has just won an order for Budapest Bank, necessitating a $1m investment in a GE Spacenet system. Turnover, at Ft500m last year, is expected to rise by some 25 per cent as a result, said Mr Antal Heszberger, deputy director.

Budapest: the phone service used to be so poor that locals knew there was no point in even complaining Picture: Kester Eddy

Matav holds an exclusive concession on international and long-distance voice traffic which ends in late 2001. This is a key consideration in the evaluation of the company for an initial public offering and foreign bourse listings, expected within the next 12 months. The company remains confident that the concession will run its full term, in spite of some hints from ministry officials about earlier liberalisation due to the IPO, Hungary's accession to the European Union, or the recently signed WTO liberalisation agreement.

"The WTO and EU accession strengthen the kind of commitment management is preparing for anyway," says Mr Tamas Fellegi, Matav director of government relations.

Competition will undoubtedly hot up from 2002, however, and rivals to Matav such as Pantel, a consortium led by Hungarian Railways currently under formation, is one venture hoping to cash in on that day. But until then, any inroads on Matav's business will be limited, according to Mr Gergely Varkonyi, an analyst with ING Baring Hungary. "After 2001, Pantel might have an effect, but Matav is strong enough to face competition, both in terms of services and profitability. They could always reduce tariffs in a price competition if required."



The Kremlin: Russia has become one of the most potentially exciting telecoms markets in the world Picture: Headline Photo Agency

■ **Russia** • By John Thornhill in Moscow

Great untapped market

The government is conducting a heated debate about how the industry can best be restructured

The Soviet Union was legendary for its terrible telephones. Hapless travellers wanting to make international calls would have to book hours in advance and then endure the heavy breathing of KGB eavesdroppers down the line. Domestic users would often have to wait decades for a telephone line to be installed.

But since the collapse of the closed communist world and the introduction of a capitalist economy, Russia has been transformed into one of the most potentially exciting telecommunications markets in the world.

With a massively underdeveloped telecoms infrastructure, a largely urbanised population of 150m loquacious people, and a hunger to reintegrate itself into the world economy, Russia is one of the planet's last great untapped markets.

At the end of 1995, there were only 26m telephone lines in Russia: a rate of penetration significantly lower than in most other industrialised countries. But there were also 9.5m potential customers waiting for installation, suggesting considerable pent-up demand.

At present, Russia's long-distance and international telephone market is dominated by Rostelekom, a partially privatised company which was hacked out of the Ministry of Telecommunications, during the country's mass privatisation drive.

Rostelekom accounts for more than 90 per cent of all high-tariff traffic and has exploited this position to increase prices substantially over the past three years while service quality has lagged behind.

Rostelekom, which has become the first Russian company to receive a credit rating from a western ratings agency, has been systematically stepping up its investment plans, spending $400m last year on infrastructure projects. It hopes to escalate that spending further after accessing international capital markets later this year.

But the government is currently conducting a heated internal debate about how the industry can best be restructured to meet the needs of a modern economy. Plans to create a second rival carrier, Svyazinvest, providing long-distance and international access to Russia's 86 regional telephone operators appear to have been shelved – much to the dismay of the World Bank which was recommending this approach to the government.

It now seems more likely that Svyazinvest will be wrapped into Rostelekom in one form or another, creating a more powerful corporate vehicle to finance the industry'a massive infrastructure naeds hut alarming those who fear the enlarged entity's monopoly powers.

Clarification of the industry's structure, which is expected within the next few months, would also halp remove the confusion hanging over the heads of the 86 local telephone operators, allowing them to raise development finance and expand their networks.

US West, Deutsche Telekom, AT&T, and France Telecom have been the most active foreign telecoms companies in Russia, forming joint ventures with local partners. But most are constrained by their need to lease Rostelekom or satellite lines, making it difficult to compete aggressively for new business.

Mr Oleg Belov, head of Rostelekom, argues there is no danger of the company abusing its market position because of the expansion of rival operators, particularly in the cellular market.

Since Jone 1996, independent operators had been granted permission to run 50 AMPS licences, 10 GSM licences, and 25 NMT-450 licences. The Russian cellular markst has expanded from just 6,000 users in 1992 to 200,000 by the end of 1996, with furthar explosive growth predicted.

One of the largest and most successful cellular operators is Vimpslcom, which began operating in Moscow in 1994 and which last year becams ths first Russian company to he listad on the New York Stock Exchange.

As of last September, Vimpelcom had attracted 45,000 subscribers in Moscow; nine times more than the previous year. The company has also won AMPS licences to operate in five other regions in Russia with a combined population of 9m, promising to increase competition with Rostelekom.

Mr Belov says there are also 14 other rival telephone networks, operated by the railways, the oil distribution company, and the gas industry, which could provide the skeleton for new long-distance services. Many of these companies could link up with foreign operators, injecting new capital and expertise into the Russian telecoms market.

■ **The Czech Republic** • By Vincent Boland in Prague

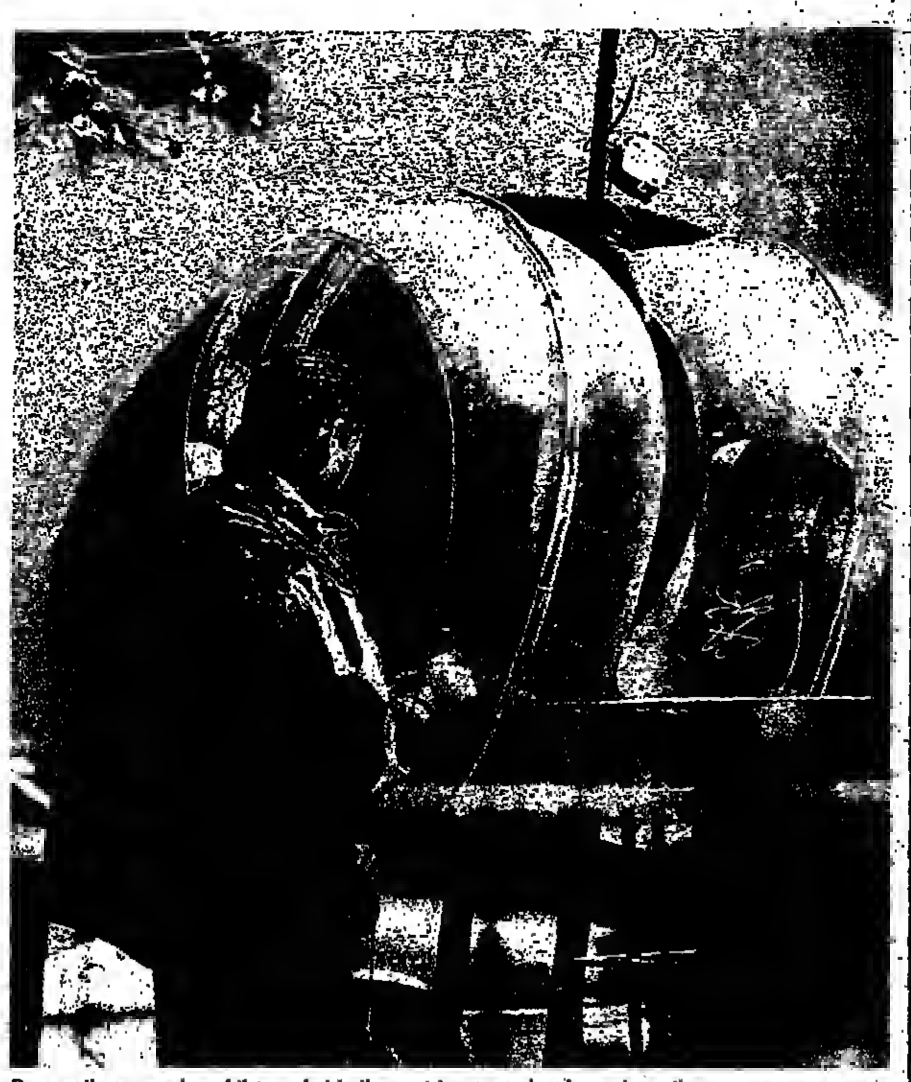
Small but exciting arena

Despite rapid expansion, waiting lists and relatively poor customer services are still factors

Nothing attracts customers like a price war. Since the Czech government opened the mobile telephone market to competition a year ago, the two licenced providers of GSM mobile services – EuroTel and Radiomobil – have been locked in a classic battle for market share marked by aggressive price cuts and a marketing campaign that has the coffers of local advertising agencies bulging.

It is one of several examples of rising competition in a telecoms market that, until the part privatisation of SPT Telecom in 1995, was badly served by a creaking monopoly and hardly grew at all. The pent-up demand for services of any kind, especially from corporate customers in service industries, lies behind the growing demand.

"Buying a mobile telephone is quick and easy and many customers are willing to get them while they wait for new or extra fixed lines," says one telecoms executive.



Prague: the expansion of the market in the past two years has been dramatic Picture: Sarah Murray

The decision to sell a 27 per cent stake in SPT to a consortium of PTT Telecom Netherlands and Swiss Telecom for $1.45bn has been the catalyst for this growth.However, the Czech Republic remains a developing telecoms market. Waiting lists and relatively poor customer services are still factors. But the expansion of the market in the past two years has been dramatic.

In 1996, SPT, the monopoly operator of long-distance and international services until the turn of the century, installed more new telephone lines – 417,000 – than were installed during the entire 1980s. The expansion increased the density of telephone lines from 23 to 27 for every 100 people; well below western European levels.

SPT also received 380,000 new requests but reduced the overall waiting list from 650,000 to 623,000 at the end of the year. This year, says Mr Svatoslav Novak, chief executive, it expects to install 470,000 lines as part of a continuing modernisation drive that will eventually cost about $5bn.

Under the privatisation agreement, the company has to meet stiff targets for new installations every year. It still takes customers two years to get a fixed-line connection, but that is less than half the time it took a year ago and the goal is to eliminate the entire waiting list in 1998.

This will mean that from 1999 an applicant will have a phone installed within three months of the request, while business customers will have to wait no longer than one month.

Even though SPT's monopoly of the most profitable services remains in place, international operators have begun eyeing niche markets, offering services that the national operator has been slow to develop. A team from British Telecom was in Prague in February, scouting opportunities among leading corporate customers for advanced international services – and prompting SPT to consider its own specialist target list of top customers.

The Czech market is "small but exciting," says an executive with a western operator interested in the Czech markst. However, with access not guaranteed until SPT loses its monopoly status, opportunities may be limited if liberalisation is introduced. That is why local cable and telecoms groups keen to enter the market would like to see the monopoly ended sooner, and are talking with utility companies about joint ventures to try to provide alternative services to SPT.

The fastest-growing sector of the market now is in GSM mobile services, in which SPT is also a key operator. Its mobile subsidiary, EuroTel, owned jointly with Bell Atlantic and US West, has taken a commanding lead over its only rival, the Deutsche Telekom-run Radiomobil, in the race for market share. EuroTel has more than 100,000 customers after six months of operations, compared to Radiomobil's 35,000, in the GSM market.

Analysts caution, however, that continued strong growth in the telecoms market is crucially dependent on economic growth. Gross domestic product in 1996 actually fell, to 4.1 per cent, from 4.8 per cent in 1995, and this year it is unlikely to be much different because of the slow pace of industrial restructuring and poor export growth. That may put a cap on the market's growth, but SPT's monopoly status and continued strong demand from new customers is likely to leave the company in a strong position when the market is thrown open to wider competition in 2001.

■ **Poland** • By Christopher Bobinski in Warsaw

Decisions on sell-off strategy need to be taken soon

The state-owned operator will soon face significant competition from private investors

Poland will soon be taking decisions on a privatisation strategy for Telekomunikacja Polska SA (TP SA), the main state-owned telecoms operator, as privata investors in local networks and mobile telephone systems mount a challenge to the company's dominant position in the sector.

So far, TP SA, which has a legally guaranteed monopoly on international connections until the end of 2002 and on inter-city links until the end of next year, has carried the main burden of devaloping the country's still inadequate telephone system. The company'a investment programme has funded installation of 3.5m lines since 1990 – lifting the average number of lines to 17 per 100 inhabitants. TP SA plans to have 30 lines per 100 people in place by the year 2000.

At the same time, the Telecommunications Ministry, after taking advice from Schroders and CS First Boston, has drafted privatisation proposals for a public share offer in TP SA both at home and abroad some time next year. This still has to be approved by the government, amid signs that management at TP SA is beginning to drag its feet in an attempt to delay the process. However, Mr Marek Belka, the the recently appointed finance minister, has said he will push for the privatisation to take place as soon as possible.

Meanwhile, Mr Andrzej Zielinski, the telecoms minister, appears to want to defend TP SA's monopoly in order to maximise the company's value for tha sale. The attempt comes amid hitter complaints from operators of fixed-line local networks who say that TP SA is using its control of tha national network to delay their development.

At the sams time, mobile telephone companies have successfully challanged in the courts a government order that they use TP SA lines for their intsr-city calls.

Despite the complaints, Netia, a company owned by a number of foreign investors as well as Telia of Sweden, is planning to install 600,000 land lines by the end of the century in a $600m programme which is partly funded by the European Bank for Reconstruction and Development (EBRD).

The main action, however, is with the two GSM mobile operators who have, since last autumn, gained a total of about 150,000 subscribers in a fierce competition for market share. One group is Polkomtel which has Tele Danemark and Air Touch of California among its investors; the other is Polska Telefonia Cyfrowa (PTC) which is led by the listed Elektrim company backed by US West and Deutsche Telekom.

The figure compares favourably with the 160,000 subscribers using Centertel, a five-year-old NMT network run by a joint venture between TP SA and France Telecom.

Last year, Ameritech, one of the founders of the company, withdrew from the venture after accusing the Polish authorities of failing to deliver on a promise to give Centertel one of the GSM licences. Centertel has said it will be applying for a new DCS 1800 mobile telephone licence under a forthcoming tender.

Polkomtel potentially has the advantage over PTC in the bitter GSM race for subscribers because it includes PSE, the Polish power grid company among its shareholders. PSE is speeding up a $70m project to install telecoms lines along its main power lines which can be used as a rival network to TP SA's. Now that the courts have said the mobile companies do not have to use TP SA's inter-city connections, Polkomtel will, in a matter of months, be able to put its calls through the PSE network and lower costs. That in turn will force TP SA to lower its price for interconnection services to PTC.

In any event, the existence of both the PSE network and similar potential carried by PKP, tha Polish railways, mean that after 1998 TP SA will face significant competition in providing data transfer services and voice calls.

■ Brazil • By Jonathan Wheatley in São Paulo

Change is long overdue

A new, independent regulatory authority is expected to change the way the system works

The Brazilian government hopes privatisation of its creaking telephone network will attract investments of $100bn in the next six years. The figure may sound suspiciously rounded, but its magnitude is a fair reflection of the enormous changes about to take place in the industry.

Privatisation is due to begin on April 7, when the communications ministry will take bids to operate 10 "B-band" cellular service concessions covering the whole of the country. These will compete with existing "A-band" services offered by the public sector.

The A-band services and the entire fixed network will be sold later. The government – optimistically – says the process will be complete by the end of 1998.

Change is long overdue. With rare exceptions, the 27 state operators grouped under Telebrás, the federally-controlled holding company, and Embratel, the long-distance and international operator, have failed to keep pace with demand. In São Paulo, the biggest city in South America, the shortage is such that conventional lines change hands on the black market for as much as $5,000.

If all goes well, supply will soon catch up. Pyramid Research, a division of the Economist Intelligence Unit which studies telecoms in emerging markets, reckons the number of cellular and fixed subscribers combined will more than double from 17.3m today to 44m by the end of 2001.

At least 13 consortia are preparing to bid for the B-band cellular concessions; some of tha alliances formed at this stage are likaly to hold for later bids for A-band concessions and for the fixed services.

Most include at least one foreign operator – AT&T, BellSouth and GTE of the US, Stet of Italy and Korea Telecom among them – in partnership with local investors, construction and media groups and the occasional local telecoms operator.

Foreign companies are limited to a 49 per cent share of any winning consortium until mid-1999, when the restriction lapses. Local partners with a strategic interest in telecoms can be expected to retain their stakes; those that are purely investors may sell out to their foreign partners, allowing them to take control.

Tha government has yet to decide whether the A-band concessions will be sold separately from their current operators, or if the cellular and fixed services will be sold together. The chosen model will be published following approval of a general communications law, sent to Congress last December.

The law paves the way for privatisation and lays out the responsibilities of a new, independent regulatory authority, the Agência Brasileira de Telecomunicações (Abtel). It follows approval in 1995 of a constitutional amendment allowing privatisation to take place.

The law is likely to be passed by the middle of the year. Until then, much remains unclear. The government has yet to specify how it will regroup the existing operating companies, although Mr Sérgio Motta, communicaiions minister, has said he would like to see four new companies, one of which would cover São Paulo state alone.

Investors are also keen to see the form that Abtel will take. "The regulatory body will completely change the way the system works," says Ms Meredith Persily of Pyramid Research in São Paulo. "Bureaucracy will be cut; so will political interference. Everything will move much faster. We can expect more emphasis on subscriber choice, pricing, things that were never a part of Brazilian telecommunications."

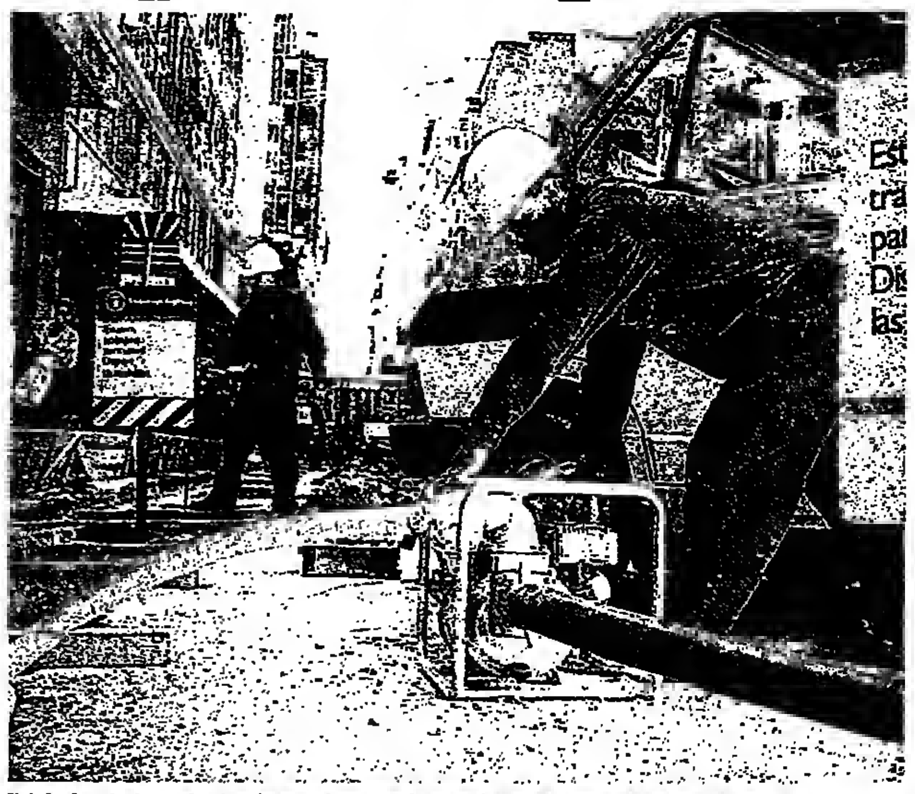
Although uncertainties remain, recent experience suggests the sell-off will be strongly contested. Last December, the government of Rio Grande do Sul sold a 35 per cent stake in CRT, the only Brazilian operator controlled by a state rather than the federal government.

The buyer was a consortium including Telefónica Internacional of Spain, which narrowly beat a rival consortium grouped around Stet, by bidding R$681m; 54.8 per cent more than the minimum price.

■ Argentina • By Matthew Doman

Reforms provoke protest

Recent rate restructuring should mean Argentina's telecoms twins are better placed for an open market



Telefonica de Argentina has invested millions in updating and extending the phone network

Telecommunications reform has been under way in Argentina for more than five years, but at no point has it been subject to more intense public debate than in the past two months.

Thousands of Argeotines have taken to the streets to protest the impact on their wallets of the latest preparatory move for eventual wider opening of the country's telecoms marketplace.

The cause of the public outcry has been a long-discussed and, most argue, long-overdue realignment of the long-distance and local call charges levied by Argentina's telephony twins, Telecom and Telefonica.

Until the government's telecoms regulator announced a dramatic rate rebalancing in late January, Argentina boasted some of the world's cheapest local calls and most expensive long distance charges.

The price changes mean line rental and local call charges will increase by about 40 per cent, but distance rates will fall by as much as 60 per cent. That is, if the besieged government of President Carlos Menem holds the line in face of the widespread public and internal political protest.

The loudest opposition to change comes from lower and middle-class phone users in and around Buenos Aires. With little need to either call abroad or to phooe other Argentine provinces, they face only the downside of the supposedly reveoue-neutral rate rebalance.

Urging the government against backtracking are the investors who can rightly claim to have turned around the phone business in Argentine this decade. Since privatisation of the country's telecoms industry in 1991, Telecom Argentina – led by France Telecom and including Italy's Stet as a big shareholder – and Telefonica da Argentina – operated by Spain's Telefonica Internacional in partnership with the Argentine investment unit of Citicorp and others – have enjoyed a lucrative duopoly of Argentina's core telephony services, while investing millions in updating and extending the phone network.

That duopoly, which was meant to give Telecom and Telefonica the scope to focus on government-imposed basic service improvement targets without having profits ravaged by other entrants targeting their most lucrative services, is due for review this year.

To the chagrin of a vast array of international telecoms concerns waiting on the sidelines, the duopoly is almost certain to be extended for another three years.

After considerable to-ing and fro-ing last year, the government now appears set to stick to the letter of its pre-privatisation agreements with the telephony twins.

Those agreements promised that if the incoming investors met a wide range of service improvement targets – from the number of phone lines and the price of new connections to the quality and reliability of services once calls were made – Telecom and Telefonica would continue to share a protected market until the year 2000.

After comfortably surpassing all these service targets, and bringing affordable telephone services to millions of Argentines for the first time, Telecom and Telefonica argue that not only do they deserve their reward of protected profits, but that the Argentine telecoms market is still too little-developed for fiercer foreign competition.

Mr Juan Carlos Masjoan, Telecom's presideot and chief executive, argues that Argentina is oot ready for full deregulation and says that despite the gains of the past five years, five more conditions are necessary: more universal service levels throughout the country; clear interconnection conditions for a multi-carrier market; a new numbering plan; clear legislation protecting new entrants from predatory action by dominant carriers; and, the just-delivered rate-balancing to enable existing operators to compete with new entrants who offer only limited services.

"When you look today, what has happened over the last five years is magic," Mr Masjoan said. "But if you want a more competitive world, guidelines must be transparent."

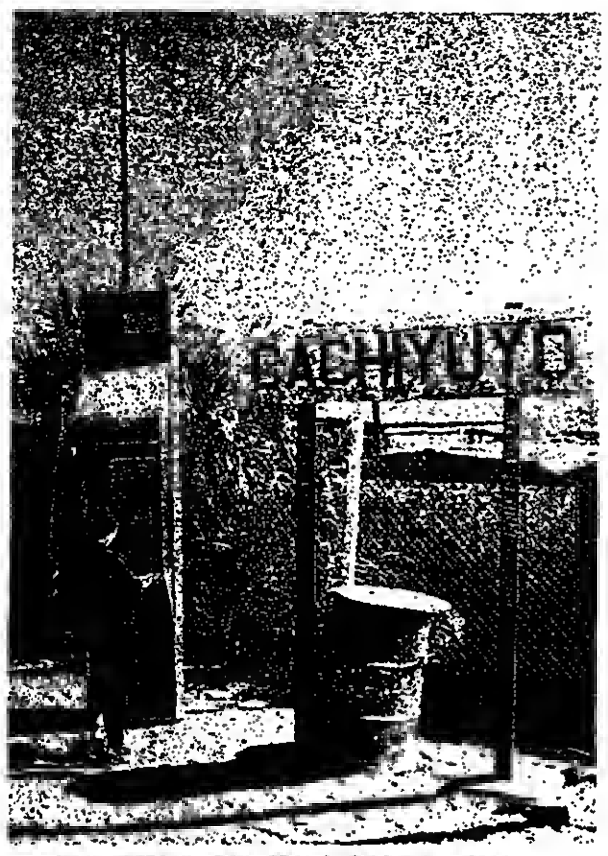
Many financial analysts of the industry agree. Mr William Laurent and Mr Ronald Aitken, Robert Fleming Securities researchers, said in a recent report that the rate restructure would mean Telecom and Telefonica were better placed for an open market if it were introduced after 1999.

"We have to hope the government does not take the opportunity to introduce competitioo earlier."

■ Chile • By Imogen Mark in Santiago

Deregulation started with a price war

The industry has been fully private since 1988. Services have expanded rapidly



Telephone "box" in a mining village in the Atacama desert

For a few frenzied weeks around Christmas 1994, Chileans could phone round the world for five cents a minute using any of seven different long-distance carriers. It was a price war which marked the deregulation of the long-distance market, and a competitive new era in the Chilean telecommunications sector.

Although the rates crept up again over the following months, today they are still 40-50 per cent less than they were before the multi-carrier system started, and Chilean international rates are consistently cheaper than calls to Chile from anywhere else in the world. Traffic has increased by more than 40 per cent – and there are eight companies offering service.

The companies, and their shareholders, recall the experience with a shudder – their accounts only crawled back into the black last year. But to the government, the overall impact of the multi-carrier model justified its strategy of ultra-liberal regulations to encourage competition in the sector.

"The most relevant rule of the game in the Chilean industry is the clear differentiation between the role of the state and the private sector," says Mr Gregorio San Martin, the junior minister responsible for the sector.

"The state's role is to regulate; ensure there are conditions for free and fair competition; make sure the entry barriers are low enough to encourage new entrants. The private sector's job is to find the technology and the money to buy it, and sell it to the customers."

The industry has been fully private since 1988 and its services have expanded enormously. Then, Chile averaged only six lines per 100 inhabitants; one of the lowest rates in Latin America. The waiting list for a phone in Santiago was a couple of years – and more in the provinces. Telephone "brokers" selling second-hand lines, sometimes complete with old debts, were the only alternative.

Today there are 14-15 lines per 100 inhabitants, and by the end of the decade the figure should be up to 22. A new line in Santiago takes a couple of weeks; two months in most other big cities. An installation costs $150.

CTC, formerly the state-owned domestic carrier, now majority-owned by Telefonica of Spain, has had a near-monopoly on domestic service with the exception of two southern regions of Chile. But now it is being challenged.

Entel, formerly the state-owned long-distance carrier now controlled jointly by Stet of Italy and a Chilean business group, is offering domestic service in selected areas of Santiago, mainly for business users and employing conventional technology.

But VTR, owned jointly by SBC International, a subsidiary of Southwestern Bell Corporation, and the local Luksic group, is planning the start-up in April of a "black box" technology which will allow it to use its nation-wide TV cable network to provide basic telephony to its TV subscribers.

Chile is one of the few countries in the world where there are no restrictions on cross-ownership of cable and telephone companies.

The venture, in partnership with Nortel, the Canadian equipment supplier, will be one of the biggest deployments yet of Nortel's new technology, according to Mr Jorge Salvatierra, VTR's general manager. Its prime target is the lower socio-economic groups who are beginning to be able to afford a home telephone.

The other area where more competition is being introduced is in the mobile phone market, where the ministry has recently granted three concessions to operate personal communications services (PCS), in addition to the existing licences for conventional cellular phones. The concessions, which were free, were awarded to the companies offering the widest and fastest national coverage, with heavy sanctions for failure to comply.

Wireless telephony is helping link up isolated rural areas, where more than 2m people have hitherto had no access to telephones. Government policy has been to auction to the lowest bidder a 10-year subsidy and a non-exclusive concession for a designated area. By mid-1998, Mr San Martin says, about 50 per cent of the uncovered areas will be linked in, for a cost to the government of $3m.

■ Mexico • By Daniel Dombey in Mexico City

Sudden focus on quality

Investors and experts have been surprised by the results of liberalisation

A few years ago, users of Mexico's telecommunications system had to suffer in silence. Lines were poor, calls were over-billed and Teléfonos de México (Telmex), the old privatised monopoly, was by far the country's most disliked company.

Now a rash of nsw companies have entered the $4bn long-distance calls sector, launching massive advertising campaigns, while Telmex has developed a sudden interest in quality of service.

Libsralisation – which began in earnest on January 1 – had long been anticipated. But its results so far have surprised investors and experts who had feared Telmex would be deeply hurt by the process and who expected less aggressive price-cutting than has occurred.

"Many Mexicans have decided to stay with the devil they know: Telmex," said Pat Jurczak, an analyst at ING-Baring in New York. "But a lot of those people do not use the phone much. By the end of the year, the new competitors could end up with 20 to 25 per cent of the long-distance market."

The liberalisation is a gradual process, spreading across different parts of the country throughout the first half of the year. But preliminary figures have favoured Telmsx and Alestra, a joint venture between AT&T and the Mexican conglomerates Alfa and Visa-Bancomer.

In ballots of users, Telmex and Alestra have alternated as the most preferred carrier, while Telmex has also bensfited from a low user response to the liberalisation – which means more customers will stay with it as a default carrier.

The third big company, Avantel, a joint venture between MCI and Banamex, Mexico's largest bank, has seemed to lag behind. And four other smaller long-distance ventures have not yet established a strong presence. However, Avantel officials argue that they are winning the battle for corporate clients, whose preferences do not appear in the declared results.

The most important consequence of the competition appeared even before the contest had properly begun. Telmex's service is now considerably better than it was just a year ago and even intercontinental lines sound clear. In addition, the contest is a boost for Mexico's media industry: between them, the long-distance companies are expected to spend $173m on advertising this year. Competitors have also provided free gifts, such as tickets to the cinema, for users who lean their way.

More significantly, prices have fallen by more than expected. Including various new discount schemes, Telmex's long-distance tariffs have come down by almost a third in a few months – although they had previously been raised. Avantel and Alestra have also cut their rates several times.

The sector is still very far from the kind of instability that the Chilean market suffered on its liberalisation three years ago, when prices fell by up to 90 per cent. However, while a year ago telecoms executives were adamant that no price war would occur, today their message has changed.

"Discounts are going deeper than we had imagined," says Mr Roberto Hernández, chairman of Avantel. "But it shows that competition is real."

Such competition has yet to appear in the local calls sector, despite the keen interest of companies such as Alestra, Iusacell, a wireless company now run by Bell Atlantic, and Amaritel, a joint venture between a Mexican radio company and several US telecoms companies.

Although Telmex raised local rates by almost a third at the beginning of the year, the sector is still barely profitable and more increases will be necessary for competition to begin.

In addition, the government will have to grant pending applications for local licenses and begin auctioning off parts of the radio-electric spectrum needed for local fixed wireless services – something it promises for later this year.

■ User view: British Gas Services • By Joia Shillingford

A smooth transition

The demerger of British Gas meant that British Gas Services (now part of Centrica) could no longer buy its telecoms services from an in-house department. This gave Mr Terry Dudley, telecoms and IT manager at British Gas Services, the chance to define his requirements from scratch. He describes what he chose and why:

BGS can send information to engineers' laptops via their mobiles using Vodafone's mobile data network

Last April, Mr Dudley realised that British Gas Services (BGS) – a new operating company providing central heating and maintenance services to UK domestic gas users – would need a new Wide-Area Network (Wan), a Virtual Private Network (VPN) for voice, and a new way of contacting engineers.

First, he concentrated on replacing the Wan which had to connect seven Local Area Networks (Lans) at different sites to each other and to a computer centre. But he wanted to make the Wan more resilient than before.

Mr Dudley was looking for a service that would be managed totally by the supplier. He put the project out to tender and eventually shortlisted six suppliers: BT, Mercury, Newbridge Networks (who supplied the Wan's core technology and could lease lines), AT&T, Racal and Energis.

"Two of the suppliers were fairly close, but the others drifted away quite considerably," says Mr Dudley. "The gap between the dearest and the cheapest supplier was £600,000."

At the same time, BGS was also looking for a VPN supplier (a VPN works like an internal phone network but runs over a telecoms suppliers' lines). Energis was chosen for both projects because although it was not the cheapest supplier, it was price-competitive and could cope with BGS call volumes and "break-out" requirements.

BGS wanted a call from, say, Staines to Scotland, to be able to travel over its VPN then break out into the public network in Scotland as a local call. In fact, it wanted every external call to cost no more than a local call.

BGS makes millions of outgoing calls a year (about 10,000 a day at each site) and its Energis deal – thought to be worth more than £3m a year – has enabled it to cut outgoing call costs by at least 20 per cent.

BGS's new Wan still costs about the same as before but offers more. Last October, the company swapped over from its old Wan to the Energis Wan. Then, between October and Christmas last year, Energis began installing extra resilience.

According to Mr Dudley, there are extra lines between each office's Lan; each alternative line enters the building at a different point, so that if a truck runs over one line, the other will keep working. Lines also enter the Energis network at two different points. British Gas Services' VPN was ready by Christmas and handles 70,000-80,000 incoming calls a day as well as the outgoing traffic. The company's 3,000 staff also often have to ring customers back to make appointments, or sell extra services.

Mr Dudley is now combining his company's VPN with VPNs in the other Centrica companies: British Gas Trading and Energy Centres. These should be linked by the end of March. "The VPN allows me to dial any of our offices cheaply," says Mr Dudley. "For example, dialling something like 29018 puts me through to an extension in Scotland."

Some outgoing calls need to be made by staff who are out and about. So last October, the company equipped its engineers with 6,500 GSM (Global System for Mobile) phones. These are being used for mobile voice communications, with the idea of improving communication with customers.

"Now, engineers have the ability to get it right first time: if they're on a job and aren't quite sure how to fix something, they can call a colleague. Or if they are running a few minutes late or having difficulty finding a house, they can call the customer and let them know."

The company is also in the process of outsourcing its radio network. Previously, it used a mixture of a British Gas-supplied radio-based network and the RAM Mobile Data network, but it is switching to GSM data.

Some of its engineers have already begun using their mobiles for data as well as voice. Work schedules and other information, will be sent to engineers' Panasonic laptops via their Panasonic mobiles – using Vodafone's mobile data network.

BGS's use of portable technology to improve diagnostics is increasing, too. When a device called The Limpet is attached to a pump, a read-out on the laptop (to which it is also connected) says why that pump is not working.

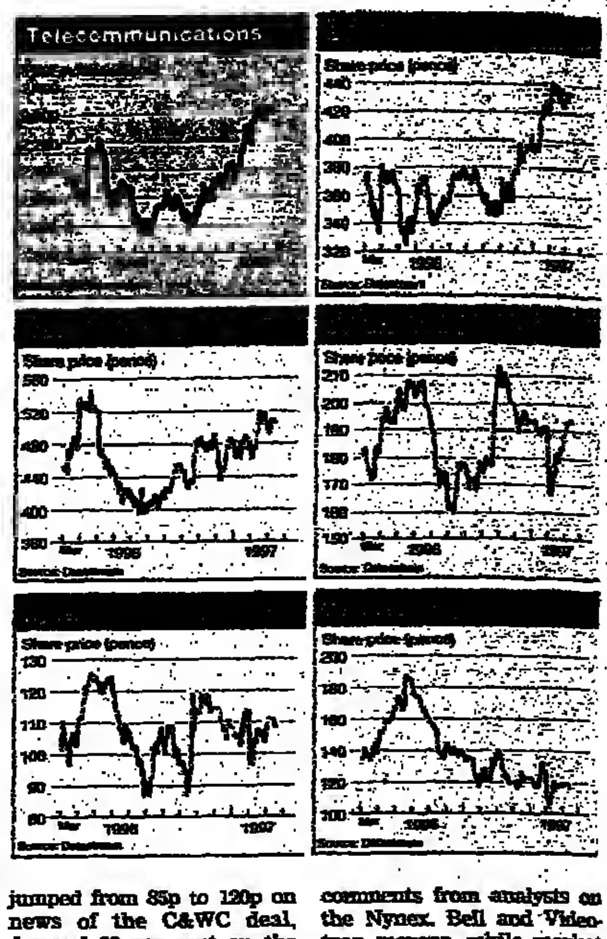
In addition, says Mr Dudley: "We're even talking to appliance manufacturers about putting communications into their boilers, so we can plug in our laptops and see what needs fixing."

Meanwhile, Mr Dudley is pleased with progress. "We did our homework to begin with and we're pleased with the outcome – especially the smooth transition to a VPN. We're spending less on calls to the public network, enjoy working with Energis, and would choose the same solution if starting again."

■ UK market report • By Christopher Price

Key battle is for callers

A strong showing in the telecoms market has contrasted to mediocre subscriber figures in the TV arena



Their share prices may be buckling under the threat of terrestrial digital television, but for the UK cable companies the key battleground is increasingly the one for telephone subscribers.

With the number of cable television customers continuing to disappoint, the cable groups have found it easier to attract telephone subscribers in their attempts to recoup some of the hundreds of millions of pounds invested in their networks.

Nothing underlines this trend more than October's announcement of the merger of Nynex, Bell Cablemedia and Videotron with Cable and Wireless's telecoms subsidiary, Mercury Communications.

The new group, to be called C&W Communications, will be easily the UK's biggest cable group, and the most significant competitor yet to British Telecommunications dominance of the residential and business telecoms market. C&WC will represent about 70 per cent of all UK cable customers with more than 500,000 telecoms subscribers, 600,000 television customers and potential access to 6m homes.

Telewest, which remains the largest cable company until C&WC's merger is complete in April, has not been idle in the wake of the deal.

After breaking off its own merger discussions with Nynex prior to the C&WC announcement, Telewest recently announced a link-up with BRT, the former British Rail telecoms network bought last year by Racal. BRT will provide the national fibre optic network to Telewest's local cable connections. The result should be lower interconnect costs for the cable group than those it currently paid to BT.

The move comes amid continuing talk in the telecoms market of further consolidation in the cable industry, with General Cable, currently the third-biggest cable group, being linked with Telewest.

The consolidation in the industry will present a greater challenge than ever to BT, allowing the larger cable groups to offer more attractive television and telecoms packages, as well as continuing to be aggressive on price.

The latest set of results from the cable groups show them continuing to attract more subscribers, although BT claims that the trend in the residential market is slowing. Announcing its interim results in November, Sir Peter Bonfield, chief executive, said the slowdown in defections was a result of the estimated 10 per cent growth in the residential telecoms market in the year, and the success of BT's campaign to win back defectors.

In February, Bell Cablemedia reported an 8 per cent rise in residential telecoms subscribers to 291,760. Telecoms revenues leaped 74 per cent to £41.2m out of group revenues of £73.2m, up 69 per cent. However, net losses more than doubled to £95.7m, with the company predicting break-even by the end of 1998 as it continues to build its network.

It was a similar story for the other cable groups. Nynex, for example, increased its number of subscribers by 50 per cent to 349,000 during 1996, while "penetration" rates – the number of homes marketed divided by the number subscribing – rose and the "churn" rate – the number of subscribers cancelling – declined.

However, the strong showing in the telecoms market has been in contrast to mediocre subscriber figures in the television arena, where both penetration and churn rates remain poor. These, together with the recent announcement about the development of terrestrial digital television, have weighed against cable share prices in recent months.

Nynex shares, which jumped from 85p to 120p on news of the C&WC deal, dropped 20 per cent on the announcement in January that a BSkyB-led consortium was bidding for digital terrestrial channels. The advent of up to 30 new channels was seen as taking away one of the key advantages of the cable groups in their ability to offer multi-channel television.

It was a similar story at Telewest, its shares slumping from 130p to 105p within days of the digital television announcement. General Cable shares tumbled more than 15 per cent.

The cable companies argue that their digital service, due to be launched later this year, will be able to offer 200 channels and open the way for individual pay-per-view sporting events and video-on-demand movie channels.

For the two main telecoms groups, BT and C&W, it has been a different story in the past few months, with both companies' share prices buoyed by deals. C&W has been basking in the positive comments from analysts on the Nynex, Bell and Videotron merger, while market rumours of links with overseas telecoms groups have also added to sentiment.

A solid set of results from BT in November followed the announcement earlier that month that the UK company had agreed a £20bn ($12bn) merger deal with MCI, the US long-distance carrier. The new company, Concert, would be the world's fourth-largest telecoms company by sales, and the deal underpinned a 25 per cent rise in the group's shares since then.

However, the shares' rise was halted when BT reported third-quarter results in February. Although at the top end of expectations – pre-tax profits up 10 per cent at £909m, and at £2.5bn for the first nine months, against £2.43bn – there were renewed concerns among analysts at the competition from the cable companies, which was particularly evident in weaker domestic phone prices.

■ Company in the news: France Telecom • By David Owen in Paris

No room for hiccups as sell-off date draws nearer

The float will enable the government to get its privatisation drive back on course after several high-profile setbacks

After Germany and Spain, which have staged important sales in recent months, it will soon be France's turn to experience the razzmatazz of a big telecoms share issue.

Barring tha unexpected, it now looks as if investors will get their chance to buy shares in Franca Telecom, tha state-owned telecoms operator, in less than three months' time. In tha first confirmation by a minister of the planned timetable for the sale, Mr François Fillon, telecoms minister, recently indicated that individuals and institutional investors would be able to place orders from early May, when a range of prices for the shares would be published.

He said the exact price for what is expected to be the country'a largest privatisation would be fixed "in the final days of May". Such a scenario should enable the shares to start trading by early June.

The country's hard-pressed centre-right government has a great deal riding on the success of the operation, which should see a first trancha of at least 20 per cent of the company's shares transferred to private hands.

First and foremost, the sale is expected to provide the vast bulk of expected privatisation receipts for 1997 of FFr27bn. The finance ministry is aiming to raise FFr25bn from the shares.

Second, it should give the government an opportunity to get its privatisation drive back on course after a number of high-profile setbacks, notably last year's suspension of the planned sale of the Thomson electronics group. Put bluntly, ministers can ill afford another hiccup.

Finally, the move promises to set an intriguing precedent in that, for the first time, one of the country's powerful public service giants is to be partly privatised. This remains a matter of extreme political sensitivity in France, so much so that the government has promised to retain a 51 per cent holding in the group, with a maximum of a further 10 per cent reserved for employees.

Although it is highly unlikely that ministers would attempt further sales of shares in big public service companies – with the possible exception of Air France – ahead of the next parliamentary election due in March 1998, a successful operation might encourage them to do so shortly thereafter, if they remain in power.

The opposition Socialist party, for its part, has suggested it may seek to renationalise the company if it wins the elections, although many are sceptical that it would actually try to do this. More likely is that the sale of a second tranche of the company's shares would not go ahead.

Conditions certainly look favourable for the float at the moment. The Paris stock market has been buoyant in recent months, helped by the swirl of takeover rumours and the quickening pace of French corporate restructuring. The company itself appears to be generally well run and to have a largely positive image with its customers – now potential investors.

If there are doubts, they chiefly stem from the poor performance of some French privatisation stocks since they came to market. Although the recent bull market has brought about some improvement on this score, it would be surprising if this did not put off some prospective investors in France Telecom shares.

Another important uncertainty – which should, however, be resolved before the shares go on sale – is the level of fees France Telecom will charge for connecting competitors' fragmented networks into its national network.

With the French telecoms market due to be liberalised, in common with other European markets, from January 1 1998, these so-called interconnection charges are set to be an increasingly important source of income for France Telecom in years to come.

A report published last June by BZW, the investment arm of Barclays Bank, estimated the company's interconnection revenues would rocket from FFr311m in 1996 to FFr4.6bn in 2000.

The level of the charges will also affect the speed of development of competition and therefore the valuation of the company, which is currently put at between FFr100bn and FFr200bn.

The strong likelihood is that the charges will be pitched somewhere between France Telecom's initial proposals, dating from last July, and proposals made by the Association Française des Opérateurs Privés en Télécommunications (Afopt), a body bringing together Bouygues Télécom and Cegetel, Générale des Eaux's telecoms subsidiary.

France Telecom's initial suggestion was for a charge of 16 centimes a minute for calls within "local operator zones", with an average of about 220,000 subscribers; 18 centimes for calls within one of metropolitan France's 18 "transit operator zones"; and 26 centimes for calls across transit operator zones.

Afopt's proposals were much lower, suggesting charges of between 7 and 9 centimes a minute for calls within local operator zones; between 12 and 14 centimes for transit operator zones; and between 19 and 24 centimes for calls outside a single transit operator zone.

Art, France's new telecoms regulator, is expected to approve the actual rates that will apply before France Telecom shares go on sale.

Meanwhile, today is the next key date in the privatisation process: France Telecom is due to publish its last financial results as a fully publicly-owned entity. In 1995, the company made net profits of FFr9.2bn on sales of FFr147.8bn.

■ ISDN • By George Black

Clouds gather on the horizon

ATM's higher capacity may lure away some of ISDN's potential market

ISDN (Integrated Services Digital Network) has spread widely, boosted by tha Internet, but its future is clouded by the challenge of Asynchronous Transfer Mode (ATM).

In the short term, ISDN should continue to gain ground because it is generally seen as an ideal method of voice and data communication for many purposes, including fast and reliable access to the Internet. But in the longer term, some of its potential market among large corporations is likely to be lost to ATM, which can offer higher capacity and more flexible bandwidth.

"ISDN is not the only game in town any more," says Mr John Woods, an independent consultant who wrote a recent report on ISDN for Frost & Sullivan. "There is no doubt that ATM will limit its growth at the top end of the market in a few years."

ISDN has been strongly backed by the European Union, but member states have responded very differently to the EU's exhortations. In the UK, the main operators – BT and Mercury Communications – have limited the appeal of ISDN by applying connection charges which are much higher than those in Germany, where ISDN is very widespread even though usage charges are higher there.

Deutsche Telekom took the view that as a state monopoly it had a duty to build the national infrastructure and decided that ISDN was to be a principal part of that infrastructure. It realised that Germany's huge data communications business, widely dispersed across the territory, would greatly benefit from digital communications.

In Britain, by contrast, BT took the view that in a competitive market it had to act in its own interest and it could not afford to promote ISDN in the same way. It decided that installing ISDN was very expensive and it was not willing to subsidise the installation cost in order to stimulate a market which competitors might try to share.

BT has been worried by the prospect of "cannibalisation" of its existing businesses and the prospect of revenues being reduced by the twin pressures of new competition and the regulator, Oftel.

ISDN conflicts with many of BT's other business interests and income streams. For example, revenue from extra lines could fall because more lines do not need to be installed to the home and revenue from usage charges could fall because lines are used for shorter periods.

Attitudes to ISDN are thus very coloured by national cultures and regulatory regimes. Most of the other European countries have adopted positions between that of the UK and Germany, while the US has such cheap leased lines and such a mature infrastructure that ISDN has never caught on there.

There is clearly a huge pent-up demand for ISDN across Europe, especially since the Internet started to become popular. But ISDN has missed out on that opportunity to some extent, says Mr Woods, because of lack of enthusiasm by some operators and their slowness to move from national standards to the Euro-ISDN standard.

The rapid growth in popularity of the Internet has created more demand for ISDN than perhaps some of the operators would like or can cope with, suggests Mr Peter Aknai, a senior consultant with the Cambridge-based telecommunications consultancy Analysys.

Installing ISDN is not a straightforward job for the operators because it involves new cards being plugged in at telephone exchanges, which is time-consuming and expensive, he notes.

ATM, even though it has emerged more slowly than expected, is likely to be an increasingly significant factor in determining the rate at which ISDN spreads. At present, ISDN and ATM are mainly complementary, rather than competitive, but this could well change, according to Mr Aknai.

ATM is not expected to affect the Basic Rate ISDN services which operators provide to small and medium-sized enterprises and the Soho (small office, home office) sector. Basic Rate ISDN will probably continue to support functions such as Internet access, videoconferencing and local area network access. But in a couple of years, ATM could start to draw revenue away from Primary Rate ISDN, which at present supports corporate communications.

In the UK, ISDN is mainly used by larger organisations – 70 per cent of them have it, against only 35 per cent of smaller ones, according to a survey by Black Box Catalogue, a network products distributor.

Installing Primary Rate ISDN is relatively costly because, unlike Basic Rate, it requires fibre optics instead of copper cable. Some large companies are starting to build ATM networks which could be extended from the backbone into the office and displace Primary Rate ISDN, but for the present ISDN continues to prosper and is penetrating businesses in which it previously only had limited use.

For example, Newsure, a telephone insurance broker based in Richmond, Yorkshire, recently installed an ISDN system from Mercury when it moved into new premises. Mr David Coates, its marketing manager, believes ISDN will be the standard method of communication between insurers and brokers in a few years.

"We decided to install it, even though we could not use it to communicate with insurance companies at present, because we could see that was the way the market was going," he says. He thinks ISDN will enable his company to have an "open dialogue" with the insurers, sending customers' details and receiving information on policies and rates.

"With the high volumes of data that will be involved, and the speed of transmission we will want, ISDN is the obvious way of doing it," he says.

Evans Petty Associates, a retail marketing and design agency based in Chester, England, employs ISDN on a worldwide basis to deal with clients such as Reebok, based in Boston, US. 'ISDN has revolutionised our business,' says chairman Nigel Petty. 'Our major use of the ISDN line is to transfer images to and from our clients. We can also communicate easily with repro houses and printers'

■ Switches • By Michael Dempsey

Customers queue up to spend $1m

The real challenge for the dedicated large switch builders is to keep at bay the mainstream IT manufacturers

In the world of digital communications, the computer is king. It may not be referred to by its proper name, but the processor that sits on every corporate desk is also present at the hub of large telecoms networks, growing in size to reflect the tasks expected of it.

Canada's Nortel, a $10.6bn company, claims to have invented the digital telecoms switch. Nortel manufacturea small, local switchboards, but the high end of the market, represented by its Digital Multiple Switch or DMS, is a lucrative growth area.

Mr David Ball, Nortel's president for public carrier networks in Europe, reels off blue chip customers for his large switches: BT, France Telecom and Deutsche Telekom have all signed up.

A DMS switch to cope with the demands of 50,000 lines will set you back about $1m, and according to Mr Ball there is no shortage of customers. "North America and Europe have seen enormous investment in the last 10 years," he says. The UK has more or less competed its digitalisation of exchanges, with some 26m lines attached. Deutsche Telekom accounts for 80m lines. But developing markets have a huge appetite for telecoms technology.

"In China, Nortel has seven joint ventures and between them they've put in 20m lines in the last year. That's equivalent to the entire Canadian telecoms network in one year." Mr Ball sums up the opportunity: "Developing markets don't want yesterday's technology." Technology refuses to stand still, and companies such as Nortel see sustained growth in sales after relatively underdeveloped markets make the transition to digital switches.

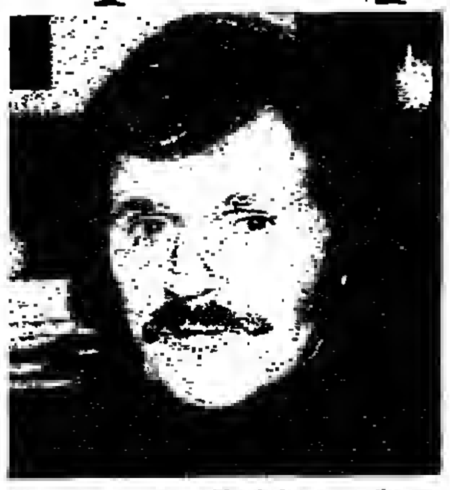
The switch makers and their software partners are constantly adding intelligence to the programs resident on switches, allowing the processor at the hub of the network to react to varying demands and support more sophisticated services. And the communications protocol that was designed to handle the much-vaunted multimedia revolution, Asynchronous Transfer Mode (ATM), will demand further processing back-up.

ATM offers the facility of packaging voice, video transmissions and computer data together and blasting them down tha line. Nortel is currently developing its very largest switches to exploit demand for ATM services. And the emergence of new operators and fresh alliances is helping to consolidate an already impressive business.

Not content with selling $500m worth of switches to BT in 1995, Nortel also built the entire switching network for new telecoms group Energis.

Schema, a £1.4m UK-based telecoms consultancy, has analysed tha way in which large switch makers have adapted to changing markats. Schama partner Mr David Brown estimates that the sale of two DMS 100 switches plus associated services was worth "several millions of dollars."

Ball: 'Developing markets have a huge appetite'



Aitken: thinks compact IN switches are on the way

Because Energis was a new operator, it needed services from the switch maker that more established names would provided for themselves. "Nortel are getting into a product management role, handling things like service definition," says Mr Bown.

Maintaining a specialist role is a good idea, because other operators are getting in on the act. Fujitsu of Japan is the second-largest computer maker in the world. It is investing heavily in internet-related products, with very advanced switches tuned to ATM, the internet and fibre-optic links on trial with public administratioo in North Carolina.

Mr Alan Wilson, multimedia manager for Fujitsu Telecom Europe, believes that popular demand for the Internet is a potent force. "The point about ATM is that it allows our switches to move between a wide variety of applications concurrently. It's a very putative market; it's all being developed, but it is being driven from the smaller end up."

The intelligent Network (IN) bandwagon is another engine driving the large switch business. UK systems house Logica turns over £35m a year in telecoms and regards this as one of its fastest-growing sectors.

Logica's IN software is sold on to network operators such as Cellnet or Telecom Finland. The software resides at a service control point, one location on the network that controls the other switches. A dedicated processor is bolted on to the network to hold the IN software and sit in judgment over these switches.

But without a common defined standard, each operator needs software tailored to his domestic or commercial market. This means Logica is selling one-off products rather than pre-packaged boxed applications. For Finland, it delivered services such as premium numbers and charge cards.

Mr James Aitken, a Logica principal consultant, says his product sits very high up, and rather far back, in the switching hierarchy. "IN software is only complex because of the interaction with switches. In Finland our programs run on Tandem computer processors that have high-speed links to large Nokia switches."

The involvement of Tandem, with its niche offering of computers specifically designed for reliability and tolerance of power failures, indicates how third parties are moving in on the switching arena from the mainstream of IT.

The cost of installing these capabilities is significant, but it has been higher. With experience, Logica is finding ways to reduce its bills. The Finnish contract cost about £2m, bnt until recently those same customer facilities would have forced Telecom Finland to part with about £5m.

Speaking of the "IN revolution," Mr Aitken thinks that compact switches bearing the benafits of IN technology are on the way. But with the Finnish system handling 120 transactions between IN facilities and the primary switch every second, there is clearly no threat to switches with huge processing power and price tags to match.

The real challenge for the dedicated large switch builders is to keep the mainstream IT manufacturers at bay. Given the near-identical technologies of these two camps, that may be an impossible task.

■ Products update

International roaming gets easier

"Dual hand" mobile phones, capable of operating on two or more separate frequencies, are making communications on the move simpler for international travellers.

Motorola, the US manufacturer, is introducing handsets which will operate on both GSM, the de facto world standard, and PCS networks, offering the possibility of easy roaming throughout Europe.

Dancall, the Amstrad subsidiary, is combining GSM and PCS 1900, the US variant on PCS, making possible for the first time roaming in North America as well as GSM areas.

NTT has introduced a further variation which combines GSM with the Personal Handyphone System, a low-cost mobila technology, limited at present lo Japan and parts of Asia. NTT sees the phone as a way of promoting PHS outside Japan.

Internet link for small businesses

UUNet Pipex, the UK-based Internet service provider, is launching a new product designed to reduce the cost of establishing an Internet connection for small and medium-sizedenterprises.

Called PIPeXchange, and developed in conjunction with the networking companies Novell and Cisco, the software gives cheap and secure Internet access yet acts like a firewall, isolating a company's internal network from the public internet. Intruders cannot "surf" into individual desktop workstations or company servers.

Automatic fax management

A system which logs, stores and indexes an organisation's fax output automatically haa been launched by an innovative Israeli company.

Nice Systems says it has developed the first fax management system capable of handling incoming and outgoing fax traffic, while providing a central database for logging, querying, archiving and retrieving individual faxes as electronic documents. Manual filing is eliminated and sensitive documents are kept from prying eyes.

Nice claims that costs savings can be up to 60 per cent over manual methods.

Conferences at your fingertips

Advanced Systems Architectures, based in Alton, Hampshire, has developed a system enabling customers to organise audio conferences over their existing telephone systems. The equipment is expensive and therefore limited to large companies – the UK Indepeodent Televisioo Association (ITV) has installed a £200,000 system – but renders an organisation free of expensive audio conferencing bureaux. ITV installed its system in part as an emergency measure: if a tranmission failure occurs, any one of its regional centres can set up a conference call to all the other centres at the press of a button.

Researchers at Lucent Technologies' Bell Labs have achieved tha transmission of 206 channels of information simultaneously over a single optical fibre using wavelength division multiplexing and a laser capable of generating serial light pulses each lasting only 100 milliont of a billionth of a second

Car phone with a satellite link

Cellway, part of France Télécom's mobile services group, has extended the concept of the mobile phone as an emergency device by combining it with global positioning technology. It has developed a car phone with a receiver capable of receiving signals from a global positioning satellite and equipped it with three special buttons – one to call for medical assistance, another for breakdown services and a third to call the police.

A driver in trouble simply presses the appropriate button and Cellway's operations centre despatches help. If the driver cannot respond, the emergency services can local the vehicle through global positioning with an accuracy of 20 metres. The phone is expected to cost about £765 and the service about £100 a year.

Scarborough waves: A national flood alert system – capable of warning of the onset of severe weather conditions – has been developed by Kingston Communications, Britain's only municipally-owned telecoms operator. Commissioned by the Environment Agency, which is now responsible for public flood warnings, the £750,000 system is connected to a network of weather sensors around more than 36,000km of flood defences in England and Wales. When flooding is likely, the agency triggers the alert which issues pre-recorded warnings to people directly at risk as well as wardens, police and local authorities. Householders acknowledge the warning by pressing a number on their key-pad, alerting agency staff to people still at risk.

NEWS IN BRIEF

Lucent signs $100m contract

Lucent Technologies and New T&T, one of Hong Kong's fixed-line telecoms providers, have entered into a five-year contract worth more than $100m.

Lucent Technologies, formerly part of AT&T, will supply New T&T with a variety of hardware and software for its network, including multiplexors and access systems. New T&T will offer advanced telephony, data and ISDN services to its customers and begin installing digital access systems throughout the territory later this year.

Primus switch

US-based Primus Telecommunications, a two-year-old Nasdaq-quoted $200m telecoms service provider, has installed a UK switch. Its UK operations are based in Westminster, London, and act as the European hub of the Primus global network.

Orange roamer

A new Orange dual-band phone that can work with more than one network is due out this spring. The mr601, made by Motorola, can roam between GSM1800 (also known as DCS1800) and GSM900 digital networks. Global System for Mobile 1800 is the standard used by Orange; GSM900 is the GSM standard used by Cellnet and Vodafone, which is also more prevalent in continental Europe. By the end of the year, Orange says its customers will be able to make and receive calls in more than 50 countries.

Voice dialling

Nortel (Northern Telecom) was due to launch a new GSM handset with personal-voice dialling and built-in hands-free operation at the CeBit '97 trade fair. In voice-dialling mode, all the user will have to do is speak the name tagged to any one of their directory entries. The hands-free facility works like a loudspeaker phone when required, enabling colleagues to participate in the conversation, or reference materials to be examined while speaking.

Ericsson deal

Swedish telecoms equipment company Ericsson has signed an agreement with US-based Bay Networks that will allow it to sell Bay Networks' full range of data communications products. The agreement sets the framework for possible co-operation between the two companies on the development of new broad-band network products and solutions for integrated voice, data, Internet access and video.

Breakdown aid

The AA, Britain's largest motoring organisation, is piloting the RAM Mobile Data Network and Turbo Dispatch software from Motor Trade Software for mobile job dispatch to a selection of garages across London. Between 5 per cent and 10 per cent of 4.8m breakdown calls received by the AA each year are handled by 900 independent garages throughout the UK. The garages supplement the AA's patrol fleet during peaks in demand.

Directory update

Cambridge-based Analysys Publications has brought out a new version of its directory – The World Telecoms Marketplace – that is also available on the Internet's World Wide Web and in a CD-Rom version. More than 2,500 telecoms organisations in 155 countries are included with 8,000 named contacts. The online and CD-Rom versions cost £750 a year including updates – £2,500 for a version with a data-export facility. The paper version costs £325.

THINK TANK

Impact of the Internet

The growth of the Internet is not all bad news for the telcos. There may even be some tangible benefits, says one industry chief

Does the Internet threaten the telecoms industry? asks Mr Andrew Grove, president and chief executive officer of Intel, in his book *Only the Paranoid Survive*.

He says: "The data traffic on the Internet represents a more cost-effective, commodity-like method of connection than a traditional telephone call." He expects users to convert growing amounts of information previously sent by conventional telephony into data. "It is a little bit like the way sending a fax compares to reading a document over the telephone," says Mr Grove. "It is more cost-efficient because you can send a lot more information in a shorter period of time. All this suggests the potential to decrease telephone companies' revenues."

However, the Net also gives long-distance telecoms operators (telcos) the opportunity to gain more use from their investment in infrastructure. This puts them in a dilemma, according to Mr Grove. "Do they embrace the Internet or do they hide from it?"

He concludes: "In the near term, growth of the use of the Internet may appear to be more of a threat. But in the long term, data rich in pictures, voice and video promise an even larger use of the Internet and therefore new business opportunities."

His balance sheet of the industry looks like this:

- Positives: Telcos get extra data communications business; they use investment made in infrastructure; pictures, voice and video mean lots of data (more traffic).
- Negatives: Conventional telephony can be replaced by data communications (it takes less traffic); telecommunications could become an anonymous commodity.

His book examines a number of crisis points – or "strategic inflection points" – affecting different industries, and how to overcome them. For example, he chronicles the impact of increased competition on AT&T after it was broken up, but points out that "AT&T and the Bell companies' combined valuation is over four times what it was 10 years before." *Only the Paranoid Survive is published by Doubleday for £27.50*

SMALL TALK

When it's not good to talk

Cable & Wireless chief executive officer Dick Brown – a man not known for handling staff with kid gloves – has just introduced an ethics policy. Staff who have signed the form saying they have read the policy now know that it is unethical to talk to journalists without a member of the public relations team being present.

So emotional

Collect 1-800 (reverse charge) calls are big business in the US. It is all about exploiting emotional dependency, says MCI. It is mainly a question of reaching relationships where there is sufficient emotional dependency for one person to pay for the other's call. The service is completely automated. You just tap in the number you want to call, say who yon are, and an automated voice asks the called person to "Press One" if they are willing to pay for your call.

No joke

Beware premium-rate fax services offering jokes. Icstis (the Independent Committee for the Supervision of Standards of Telephone Information Services) bas just fined one *"angry man"* joke company £2,000 and put a number of other joke lines under investigation. Tha company did not make clear that its hostile fax-back was a joke, or that it cost £1 a minute.

One-stop billing

MCI surveyed US users to find out if they felt more stressed than they used to. Not surprisingly, they said Yes. The company is using this information to sell services that maka people's lives easier – such as combined bills that let them pay for phone, paging, mobiles and Internet services all in one go.

BACK CHAT

Mike Grabiner: 'It was too big an opportunity to turn down'

A chance to tackle Goliath

Mike Grabiner, chief executive of Energis, talks to Joia Shillingford via the Energis network

Mike Grabiner found his way into the telecoms industry by accident. On the university milk round – in which industry recruiters conduct a round of formal on-campus interviews with final year students at 30 or 40 universities – he was short-listed for the Coal Board and for the Post Office.

Given the fate of coal mining, he is rather glad he ended up at the Post Office.

When the Post Office split into two companies, Mr Grabiner stayed on at BT, clocking up a total of 22 years at the Post Office and BT. His posts while at BT included finance and marketing and he also found time to go to business school.

Latterly, he worked closely with Sir Iain Vallance (now BT's chairman) and in 1990 – as director, quality and organisation – Mr Grabiner managed the Sovereign project to restructure BT.

In his last two years at BT, Mr Grabiner was involved, as director BT Europe, in setting up joint ventures in continental Europe that would compete against established operators.

"This gave me a taste for a David against Goliath operation," he says.

"From there, I was attracted to working at Energis because unlike many of the joint ventures I had been dealing with, it already had an extensive network based around the National Grid. It was too big an opportunity to turn down."

Mr Grabiner says the best part of his job is the external contact with customers and other businesses: "As chief executive, I like being able to make a difference in a fast-moving market, responding quickly to change."

The latest change has been to offer international services. Energis has a national broadband network, but in December it was awarded an international facilities licence.

He says that the biggest steps Energis has taken recently were to put in an international switch, take a stake in a submarine cable business and get involved in some international joint ventures.

"This has enabled us to reduce the cost base for delivering international services and extend the reach of our enhanced services, like virtual private networks, overseas.

"Our WorldLink package offers a reduction of up to 42 per cent on the top five international routes – to the US, Holland, France, Germany and Ireland – which represent over half of international telecoms traffic out of the UK. We're also a minimum of 10 per cent below BT's best discounted rates on 200 other routes."

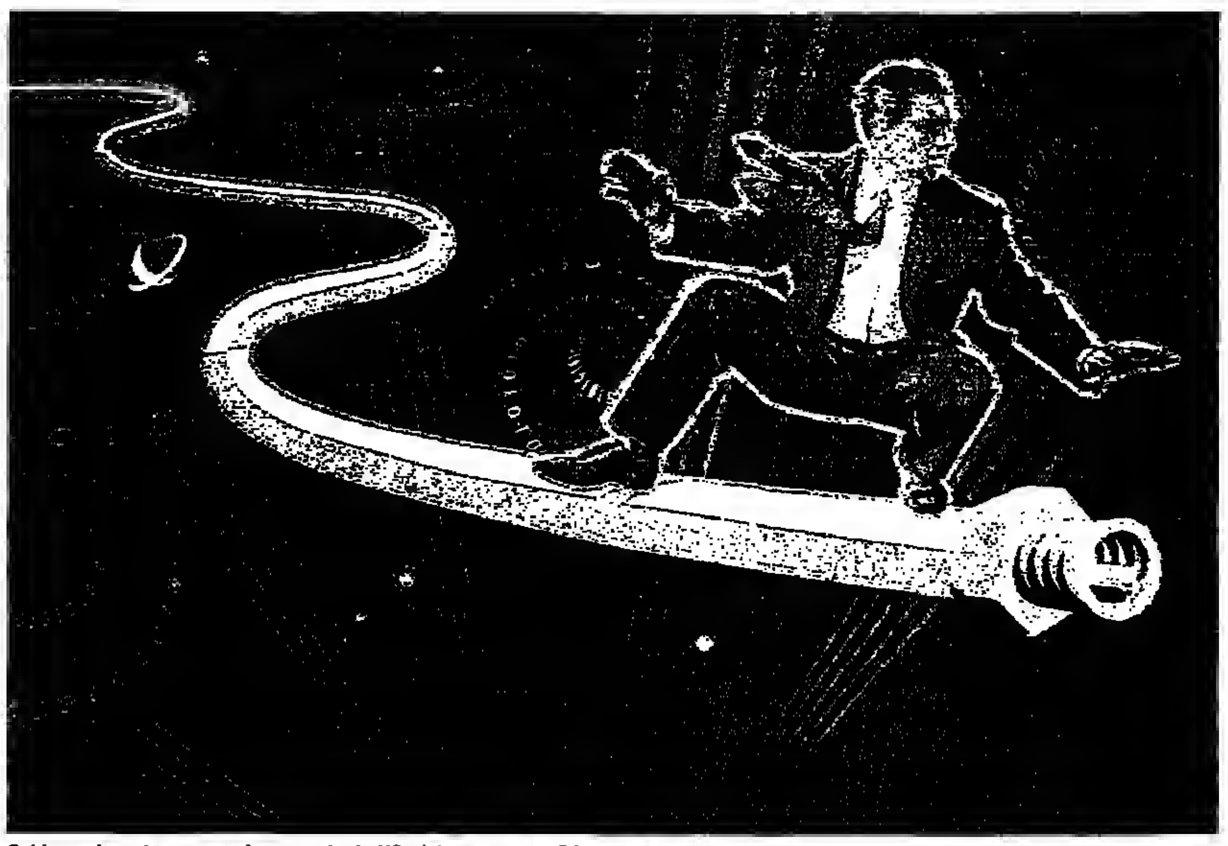
Nevertheless, Mr Grabiner does not think competing on price is as important as helping customers to restructure themselves around the technical capabilities which telecoms can now offer. For example, banks with fewer branches will need better communications.

Outside work, Mr Grabiner admits to having very little time, but he spends a lot of that with his family. He swims, plays chess and is keen on football – both playing it and supporting Tottenham Hotspur.

AGENDA

Dates for your diary

This week: Oftel is due to publish its annual report for 1996 and also its global issues (BT/MCI etc) consultative document.
March 24: Oftel due to publish this week its *Calls to Mobiles* consultative document.
March 1997: *Which?* report on telephone pricing due to be published.
April 1: Oftel launches new bome page on the Internet (independent of the CCTA).
During April, Oftel is scheduled to produce its statement on directory information.
March 19-20: SDH (Synchronous Digital Hierarchy), sixth annual symposium (London).
March 20-21: Mobile Internet '97 Conference, IBC UK Conferences, (Londoo).
Market forecasting in the Telecoms Industry Conference (London).
March 26-28: Conference on Advanced Communications and Competition in Asia-Pacific (Bali, Indonesia).
April 8-9 Cost allocation, AIC, Singapore.
April 9: Italian Telecom Summit '97 Conference.
April 14-15: Enter the New Telco, Yankee Group Europe (Monte Carlo). Risk Management, Internet, St Catherine's College (Oxford).
April 15-17: Wireless Local Loop Conference (Budapest, Hungary).
April 16-17: Liberalisation of telecoms (Madrid).
April 17-18: UK & International Interconnection, SMI (London).
April 21-23: *Cable and Satellite '97 Awards* (London).
April 21-25: Asia-Pacific Billing '97 Conference (Singapore).
April 22: VLV Spring Conference (London).
April 22-24: Interconnection Asia '97 (Singapore).
April 28-29: Developing and Managing Effective Brands in Telecoms (Radisson SAS Portman Hotel, London).
April 30: Telecoms Brands (Cafe Internet, London).



Cable modems have proved so popular in US trials that users did not want to give them back

Picture: Motorola

TELECOMS FUTURES

Cable modems on trial

In Nice, users can already log on to the Net, do home banking, peruse a CD-Rom library or check out TV traffic cameras

The number of ceble modem users will rise from about 400,000 at the end of this year to more than 19m worldwide by the year 2005, according to Ovum, the UK-based IT market research consultancy.

The modems, whicb allow high-speed access to the Internet over ceble TV networks, have proved so popular in US trials that users did not want to give them back. But cable modems are not yet availabla commercially in the UK, and are barely availabla in Europe.

This could be about to change. US company Motorola is carrying out cable modem trials in Mancbester with Nynex, in Nice with Compagnie Générale des Eaux, and in Le Mans with Lyonnaise des Eaux. Telewest's Basildon trial – also using Motorola modems – could go commercial in the second balf of this year. And there is a large cable modem trial in Norway.

According to Motorola, tbe 200-user TeleRiviera trial in Nice, is the most extensive in Europe. Users can log oo to the Net, do home banking, peruse a library of CD-Roms or check out TV traffic cameras over Nice before going on a journey.

Cable modems can operate at up to 10 megabits a second, like the office local area network (Lan).

TeleRiviera user Mr Alain Siboni says: "The speed is remarkable. Images can be downloaded almost instantly; sound is a little slower. In the US, people are used to free local calls; bere it's a revolution."

Mr Siboni, a French-to-Englisb translator of computer manuals, forestry and botany books, uses TeleRiviera to access online dictionaries on the Internet.

He also exchaoges views and enriches his vocabulary through news groups frequented hy other translators, and through electronic mail.

For pleasure, he looks at online publications sucb as *HotWired* and image banks on specialist subjects such as space, aircraft and botany. He has oot really looked at the traffic cameras above Nice for travelling, but shows them to friends for fun when they visit.

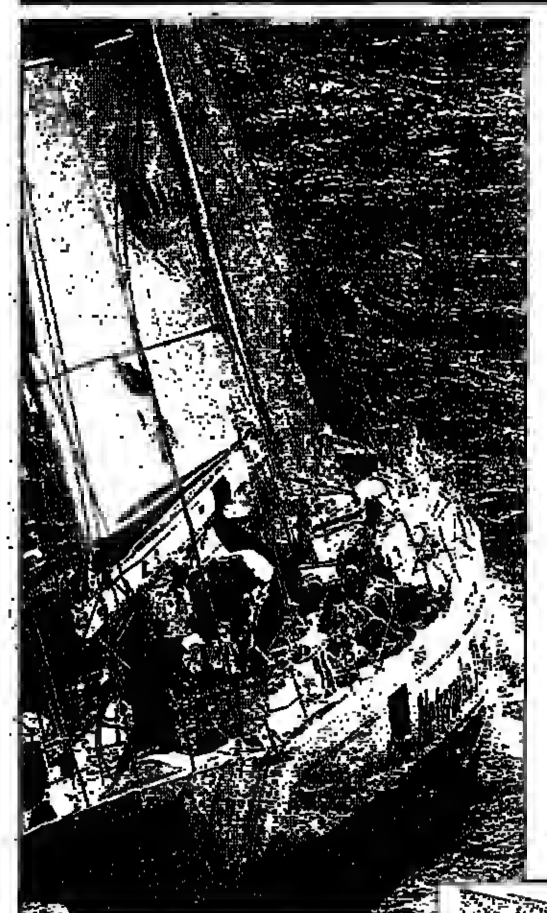
Cable modem users no longer have to wrestle with the information superhighway

Mr Siboni pays FFr150 a month for unlimited Internet access via a cable modem. When the service is launched, there will probably be an extra charge of FFr40-FFr60 a month for modem rental.

Mr John Davison, a senior consultant at Ovum, says that in the UK cable modem rental is likely to cost £25 or more a month, including unlimited internet access.

Mr Davison, co-autbor of an Ovum report *Cable Modems: Stealing the Broadband Market* says: "Cable is moving from a simple distributive model to that of interactive service provider." He predicts tbat subscriber reveoues for data over cable will peak in tbe year 2004 at $5,530m a year.

■ New competition in association with 3Com, the computer networking company



Your chance to join the Boston FT Party

A memorable prize trip to Boston, Massachusetts, in June

A seven-day trip for two to Boston in the US, with excellent hotel accommodation, spending money – and a yacht trip – forms the prize package being offered to FT readers in a new competition launched today in association with 3Com, the computer networking company.

Boston, in early June, will be the scene of big celebrations as the latest port-of-call for the BT Global Challenge yacht race as the vessels arrive after weeks in inhospitable conditions on the high seas.

Tha winner of the Boston FT Party competition – plus his or her guest – will have a chance to meet the yacht crews and make a four-hour trip on the 3Com yacht.

The prize-winner and guest will fly to Boston on June 24 and return on June 30, having spent seven days (six nights) relaxing in Boston.

The winner and guest will be met by FT journalist Richard Donkin, one of many people drawn from all walks of life who have taken part in the Global Challenge. He recently spent 43 often stormy days sailing from Rio de Janeiro in Brazil to Wellington in New Zealand as a crewman on the 3Com yacht.

What to do

To enter the competition, readers simply need to answer 12 questions. The first eight questions appear below.

The final four questions will appear on Wednesday, April 2 in the next issue of the FT Review of Information Technology (FT-IT), to be published with the FT on that day.

■ Here are the first eight questions

1. A corporate way of saying 'computer communication compatability'
2. A shower-proof Challenge port?
3. This Challenge boat could be mistaken for a sea dog
4. Pioneering explorer who gave his name to South American straits
5. He sits in Equatorial judgment when crossing the line
6. Missives on the Internet?
7. This challenge boat waits for no man
8. A place on the Internet to spin a spider's trap?

3Com
Networks That Go the Distance

BT Global Challenge

The first letter of each correct answer to all the questions will combine to spell out the phrase, '3Com Networks'.

Keep your answers handy until you have answered all 12 questions: we will let you know where to send them on April 2, when the last set of four questions appear with tha FT-IT Review, along with full conditions for entry.

This competition is not open to the staff (and their families) of the FT group, 3Com or BT. The judges' decision is final.

Krupp stresses synergies and need for economies of scale as competition grows

Target condemns hostile bid as 'asset stripping'

By Peter Norman in Bonn

Krupp Hoesch's plan to take over Thyssen is a bold move by a smaller concern that owes its present strengths and weaknesses to Krupp'a similar takeover of the bigger Hoesch ateel group in late 1991.

While Krupp Hoesch yesterday stressed the need for economies of scale in a globalised market and the importance of potential synergies in the 70 per cent of the two groups' activities which it said were complementary, Thyssen was quick to brand the bid as asset stripping. Thyasen accused Krupp Hoesch of attempting to aolve its own problems by breaking up the larger concern.

At first sight, the Krupp Hoesch move looks cheeky as well as bold. Only last Friday, Mr Dieter Vogel, Thyssen chief executive, told his company's annual meeting that rumours of close co-operation with Krupp Hoesch lacked all foundation. Thyssen management was basking in its shareholders' approval of a 30 per cent rise in the share price this year, which more than compensated for a dividend cut from DM10 to DM8.

Two days before, the news from Krupp Hoesch had been less encouraging: it reported a 59 per cent fall in net profits from DM505m in 1995 to DM208m ($123m) in 1996.

Thyssen, with group turnover of DM38.7bn in the year to the end of September, is larger than Krupp Hoesch, which reported sales of DM24bn for last year. While Krupp Hoesch's steel activities were mainly to blame for last year's profit decline, Thysaan Stahl, the steel making arm of the Thyssen group, made the biggest contribution of all Thyssen divisions to group profit.

But the two concerns also have much in common. Both have their roots in the Ruhr, Germany's old industrial heartland. More recently, both have had to face tougher competitive conditions in the markets for steel and engineering products with comparative advantage in beavy industry shifting to lower cost countries such as Korea and China.

"There is a need to consolidate the German steel industry and the bid could be the beginning of a major restructuring," argues Mr Alan Coats, European steel analyst at Merrill Lynch in London. Other European countries have one main steel producer; Germany, with Krupp Hoesch and Thyssen, has two, with respective annual sales of DM9.6bn and DM10.6bn in the sector.

In Krupp Thyssen Nirosta, the two companies already have a joint special eteels eubsidiary. Both groups have been moving into production of steels with higher value edded, with Thyssen concentrating on production of hot strip and its derivatives.

Thyssen's strength in flat products calls into question the future of the Krupp Hoesch carbon steel plant at Dortmund. Krupp management recently approved its modernisation et the cost of 2,200 jobs, but local union leaders yesterday expressed fears that it would close if the takeover of goes ahead.

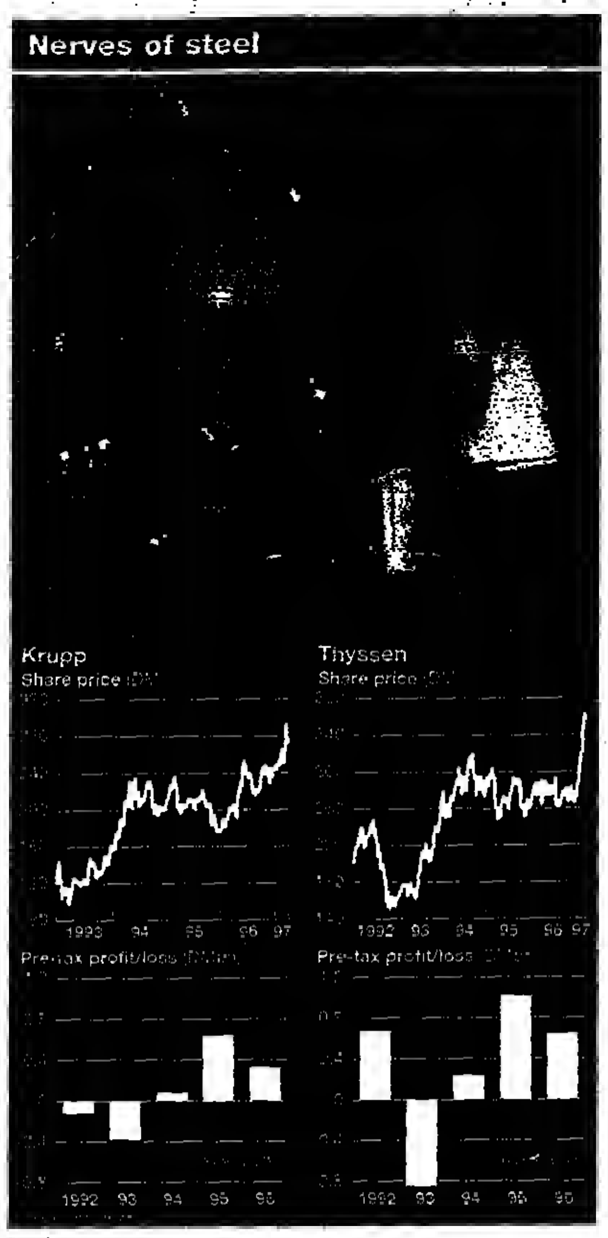
In engineering, both companies are significant producers of auto parts. Mr Terance Sinclair, of Salomon Brothers in London, put Krupp's automotive sales last year at DM3bn and Thyssen's at DM4.5bn. There could be DM100m cost savings immediately "with greater prizes in the long term", he says.

Thyssen also has an ettractive elevator business and plans to double its sales to DM6bn by 2000. But some of its diversifications have been less successful. It has scaled back ambitious plans in telecommunications where its main interest is e 30.1 per cent stake in E-Plus, Germany's third ranking digital mobile phone network. The new telecoms company set up by utilities RWE and Veba, known as o.tel.o, has expressed interest in buying Thyseen's E-Plus stake to add to its own 30.1 per cent share.

Late last year, Thyssen's Mr Vogel announced a plan to slim down the group's engineering portfolio to focus on profitable businesses. While the move was welcomed by German investors, some international analysts argued it was too little, too late.

Krupp Hoesch's Mr Cromme has proved e determined cost-cutter with a keen sense of exploiting strong market positions. "Size per se has no value. What counts is size in the relevant market," he declared last year.

Yesterday's bid for Thyssen suggests that a significant part of the German financial establishmant is prepared to put its money where Mr Cromme'e mouth is.



JOB LOSSES

Workforces united in opposition to the deal

By Peter Norman in Bonn

The Krupp Hoesch bid for Thyssen yesterday raised the spectre of mass unemployment in Germany's traditional industrial heartland of the Ruhr for the second time in just two weeks.

With last week's miners' protests fresh in the memory, angry Thyssen workers yesterday stopped work and converged on Krupp's headquarters in Essen to demonstrate against the takeover plan.

There, several thousand made common cause with workers from the Krupp Hoesch steel plant at Dortmund. Mr Gerhard Cromme, Krupp Hoesch chief executive, was booed and had to shelter from flying eggs as he tried to outline his plans to the crowd.

Earlier a Thyssen statement had warned that the takeover would lead to the loss of "tens of thousands" of jobs in a region with serious economic problems. Mr Cromme dismissed this as "pure panicking" while a Krupp statement pointed out that job losses arising from Krupp's takeover of Hoesch in 1991 had been limited.

Nearly 920,000 of Germany's 4.67m unemployed are in North Rhine Westphalia, which includes the Ruhr. The state's unemployment rate of 12.7 per cent is above the western German average of 10.6 per cent. In Duisburg, home of Thyssen's main steel plant, the 17.9 per cent jobless rate is close to the eastern German average.

Mr Georg Bongen, leader of the Thyssen workers' council, yesterday hinted at action against banks in Frankfurt to prevent Thyssen being "filleted". He said he planned to mobilise the more than 100,000 Thyssen workers against the takeover and would work with the Krupp Hoesch workforce.

Mr Jürgen Hafner, leader of the Krupp workers' council in Dortmund, warned that 5,000-6,000 jobs were threatened in the city if Mr Cromme's plans went ahead. Both Thyssen and Krupp Hoesch are already shedding labour.

In Düsseldorf, Mr Johannes Rau, prime minister of North Rhine Westphalia, said he could not approve the planned takeover.

Mr Heinz Schleusser, the state finance minister, was highly critical of Deutsche Bank's involvement in the takeover. He said a bank representative had taken part in a Thyssen supervisory board meeting last Friday without giving a hint of the plans.

BUSINESS BACKGROUND

An extremely Anglo-Saxon takeover bid

By Andrew Fisher

In the battle of the giants being played out in Germany's industrial heartland of the Ruhr, the aggressor has lined up impressive financial weaponry.

Not only is Krupp Hoesch backed by the country's two largest banks in its bid to acquire the larger and fiercely protesting Thyssen group, but it is also being advised by a top US investment bank.

Backing Krupp's offer, which values Thyssen at DM13.6bn ($8bn), are Deutsche Morgan Grenfell, the investment banking arm of Deutscha Bank, and Goldman Sachs, of the US.

Both are convinced thet the industrial and investment climate in Germany is finally right for a deal that has been discussed on and off for at least the past decade.

With Dresdner Bank, Germany's second biggest, also involved, it is clear the financial establishment has become wedded to the idea of takeovara on open Anglo-Saxon lines – if necessary, against the opposition of the target company's management.

Since it was Mr Gerhard Cromme, the forceful head of Krupp, who pushed through the controversial takeover of the Hoesch steel and engineering group six years ago, they clearly feel they are backing a winner.

The structure of the bid is e far cry from the traditional way of doing business in Germany.

The same terms of DM435 a share are being offered to all shareholders – often in German takeovers, minority shareholders are at a disadvantage – and there has been no shuffling of share packets to ensure the bid is a fait accompli before it is even announced.

Thyssen'e shareholders are being asked to choose between rejecting its defence arguments and taking the Krupp cash, or accepting that Thyssen's strategy is the right one.

"This move is being made under the rules of the capital markets rather than in the old clubby way such deals have often taken place in Germany," one banker involved in the bid said.

Mr Rolf Breuer, e director of Deutsche Bank who is soon to become its chairman, also stressed this aspect.

For Germany, he said, "this is an unusual transaction – there is no doubt about that – in terms of volume, the participants and the economic background". In the US and UK, such big takeover bids, carried out along strict capital market and takeover code rules, are more common.

Mr Breuer rejected Thyssen'e claim that Krupp was using "Wild West" tactics.

He put the bid in the context of the industrial restructuring in Germany, as companies prepared for the single European currency and strove to improve global competitiveness. It was important that such deals took full account of shareholders' rights.

He gave no details about financing, of which Deutsche and Dresdner will clearly bear the main burden.

Mr Terence Sinclair, an analyst at Salomon Brothers, the US investment bank, said Krupp (with net debt of DM2.9bn and a market capitalisation of DM5.9bn) "will have to gear itself up massively to buy Thyssen", which has DM3.6bn of net debt and DM6.1bn of other liabilities.

Sales of non-core Thyssen businesses could raise about DM6bn, leaving at least this much again to be financed through debt arranged by the banks.

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Week 12

IN BRIEF

LME to start daily stock reporting

The London Metal Exchange will introduce daily reporting of stocks held in its 400 warehouses from April 7. The change from twice weekly reporting is part of the LME's implementation of recommendations in the wake of the Sumitomo copper affair. Page 26

TWA suffers severe setback to recovery
Trans World Airlines, the troubled US carrier, suffered a severe setback to its planned recovery in the fourth quarter to December as net losses soared to $262.5m. Page 21

Capital Corp attacks London Clubs' bid
The battle in the London casino market intensified when Capital Corporation, the target of a £191m ($303.7m) hostile bid from London Clubs International, attacked the predator's ability to run upmarket casinos. Page 22

Bayer sales rise 9% to $28.5bn
Bayer, the German chemicals company, announced a 7 per cent increase in 1996 pre-tax profits, but was downbeat about its prospects for the coming 12 months. Sales rose by 9 per cent to DM48.61bn ($28.5bn) in 1996. Page 18

Dorling Kindersley issues warning
Dorling Kindersley surprised investors when the publisher of highly distinctive reference books and CDRoms issued its second profits warning in a little over three months. Page 22

Japan Telecom to merge with ITJ
Japan Telecom, the long-distance operator, and ITJ, the international carrier, announced details of a merger that will create Japan's second-largest wireline operator and the third-largest telecoms company. Page 20

Banco Santander pledges better returns
Mr Emilio Botín, chairman of Banco Santander, presented an annual report detailing the balance sheet strength of Spain's biggest banking group and pledged increased returns. Page 18

Provisions hit profits at Dairy Farm
Dairy Farm, the food retailing arm of the Jardine Matheson group, announced a 79 per cent fall in net profits last year, to $27.9m, after provisions of $77.5m for restructuring. Page 20

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Dragerwerk	27.50	+	0.60
Falls			
[illegible]	470	−	40
Beiersdorf	88	−	1.75
Henkel	68	−	2.80
Porsche	1925	−	50
SGL Carbon	220	−	7
NEW YORK ($)			
Rises			
Alcatel Alt	23¾	+	2
Caliber Sys	24	+	1⅛
Chesapeake En	22¾	+	1⅛
Falls			
Harman Intl	34½	−	11⅞
Micron Tech	40⅝	−	3⅛
Wolverine Tube	25⅛	−	8⅛
LONDON (Pence)			
Rises			
[illegible]	168½	+	11
JKX Oil & Gas	46	+	12½
Falls			
[illegible]	191½	−	12
Dorling Kind.	270	−	51
Flextech	888½	−	64½
Limelight	107½	−	35
TORONTO (C$)			
Rises			
[illegible]	3.24	+	0.34
[illegible]	2.70	+	0.30
Southernera	9.40	+	0.85
Falls			
Inmet Mining	6.20	−	1.00
[illegible]	5.80	−	0.70
Rayrock Yellow	5.00	−	1.00
PARIS (FFr)			
Rises			
Alcatel	667	+	54
Falls			
Air Liquide	860	−	15
Bancaire Cmp	720	−	24
Danone	875	−	13
Lagardere	169	−	6.80
Pinault Printemps	2164	−	85
TOKYO (Yen)			
Rises			
Dai Tokyo F&M	800	+	25
Daiwa Sec	886	+	21
Ryobi	408	+	13
Shimizu Cp	999	+	22
Toyo Seikan	2870	+	260
Falls			
Kokuyo	2560	−	90
HONG KONG (HK$)			
Rises			
Harbour Centre	11.30	+	0.20
New Asia A	28.75	+	0.25
Falls			
Amoy Props	9.75	−	0.20
HK & S Hotels	12.80	−	0.35
Jardine Intl	8.75	−	0.15
Sime Dar (UK)	9.45	−	0.25
BANGKOK (Baht)			
Rises			
Bangkok Union	28.50	+	2.50
Berli Jucker	94.00	+	8.50
CH Karnchang	58.00	+	5.00
Rockworth Pub	45.50	+	4.00
Thai Rubber	33.50	+	3.00
Falls			
Thai Elect	22.50	−	2.50

New York & Toronto prices at 12.30

Rome steps up drive to be founding member of single currency

Italy issues $1.15bn euro bond

By Edward Luce

The Italian government yesterday stepped up its drive to be a founding member of the European single currency by becoming the first country to issue a bond denominated in euros.

The 1bn euro (US$1.15bn) issue, which is only the second bond offered in the future single currency, was bought up quickly by mostly European investors after its launch.

"This is a strong statement by Italy that it is committed to the European single currency," said a syndicate official at Paribas which jointly managed yesterday's deal with SBC Warburg. "After the success of this, we expect a flood of other debut euro issues in the next few months." Syndicate officials said the launch was also designed to reduce the costs of servicing Italy's debt.

Italy's domestic lira bonds are trading at more than 200 basis points over French bonds compared with just 18 basis points in yesterday's euro launch. The Italian bond is expected to become a benchmark for the pricing of issues in the single currency by other European borrowers.

Traders said the bond, which will pay interest in euros when the currency comes into being, was unaffected by the lacklustre mood of Europe's bond markets. The euro will have exactly the same value as the ecu - a currency derived from a basket of European currencies.

"Italy priced this bond quite cheaply probably to ensure that nothing could possibly go wrong," said one bond analyst. "There is a lot of kudos from being the first country to issue in euros."

The euro-denominated bond will be serviced in the single currency regardless of whether Italy qualifies for the first round of monetary union. It follows a 1bn euro issue earlier this year by the European Investment Bank.

Syndicate officials said that the level of investor appetite for euro-denominated debt overcame general bond market pessimism in advance of a possible increase in US interest rates at the US Federal Reserve meeting next week.

The bond, priced to yield just 18 basis points more than seven-year French ecu bonds, narrowed to 17 basis points over French debt in secondary market trading reflecting strong demand for the paper. A basis point is a hundredth of a percentage point.

"The euro-denominated debt market will probably become the second largest bond market in the world within the next two years," said one official in London.

"There is therefore a lot of appetite out there for euro debt."

Bonds, Page 24

Goldman Sachs profits jump to $905m

By Tracy Corrigan in New York

A sharp rise in first quarter profits at Goldman Sachs, Wall Street's largest investment banking partnership, yesterday underlined the strength of the global securities and mergers and acquisitions business.

Goldman's pre-tax profits reached $905m, up from $565m in the comparable period last year and from $743m in the fourth quarter. Revenues jumped to $1,957m, compared with $1,461m in the first quarter of last year.

The strong earnings report from Goldman, the first of the big US investment banks to report first-quarter results, could fuel speculation about the performance of other investment banks, most of which do not report for another month. Lehman Brothers and Morgan Stanley, which have the same calendar as Goldman, will report on March 24 and 27 respectively.

Mr John Thain, Goldman's chief financial officer, said the strong financial markets had been an important factor in the firm's performance. But he added he was "cautious on the outlook for the next couple of quarters". He noted that since the end of February, when its quarter ended, bond markets have backed up and corporate bond spreads have widened.

This means investment banks with a first quarter ending March 31 may have enjoyed less favourable conditions. Some analysts have already seen signs of weaker business conditions.

"The underwriting calendar is not as strong" as last year, said Ms Sallie Krawcheck, securities analyst at Sanford Bernstein. Earnings comparisons are likely to become increasingly difficult as the year wears on.

However, Mr Thain said Goldman had performed strongly "across the board. It's hard to find any areas which didn't do well".

Expenses for the quarter rose to $1,052m, compared with $899m a year ago, reflecting higher staffing levels. Goldman's staffing totals just over 9,000, a 10 per cent increase on the previous year.

The firm plans to increase staffing by another 7-10 per cent this year.

Indonesia telecom monopoly may end earlier

By Manuela Saragosa in Jakarta

Telkom, Indonesia's state-controlled domestic telecommunications provider, may lose its monopoly upon fixed-line domestic telephone services earlier than was flagged in the prospectus issued with its initial public offering.

Indosat, the Indonesian state-controlled international telecoms operator, indicated in documents delivered to analysts on Monday that it expects Telkom's monopoly on local long-distance calls to end by 2001 and on local calls by 2005. In its 1995 IPO prospectus, Telkom said these monopolies would end in 2005 and 2010 respectively.

Telkom officials reacted sharply. Mr Thomas Widjanarto, head of the company's investor relations department, told AFX News that Telkom had "very strong objections" to Indosat's predictions. "This is very serious," he said.

Telkom's shares have already been affected by speculation that a company partially owned by a member of President Suharto's family may be given a licence to offer fixed-line telephone services. Reports this week quoted the director-general of post and telecommunications, Mr Djakaria Purawidjaja, implying that Menara Jakarta may enter the business of providing basic telecommunication services in Indonesia.

Menara Jakarta, a joint venture set up to build a 558-metre telecoms tower, is 51 per cent owned by Indocitra, which in turn is owned by several business tycoons, including Mr Sudwikatmono, Mr Suharto's cousin. Telkom and Indosat also each own 20 per cent of Menara Jakarta.

Mr Setiawan of Telkom's investor relations department said the company is "still checking with the government" to see what was meant by Mr Djakaria's statement. Speculation surrounding the lifting of Telkom's monopoly caused shares in the company to close 5 per cent lower at Rp3,650 ($1.5) in Jakarta yesterday.

"The most damaging thing is that neither Telkom nor the department of telecommunications has come out with a clarification," said Mr Robert Allison, sales director at Asia Equity Jasereh in Jakarta.

While loosening Telkom's monopoly would be in line with deregulation of telecoms elsewhere, there is concern that a second domestic telecoms services provider may not be chosen in a transparent way and that Telkom may not be adequately compensated.

"If you end the monopoly but compensate the company, as was done with Singapore Telecom, then no major harm is done," said a telecoms analyst at a European securities firm. "But if you abolish the monopoly ahead of schedule, and especially if the beneficiaries are politically well-connected, then you leave a nasty smell around."

Telkom's monopoly upon local long-distance services has already been diluted by deregulation introduced this year which effectively allows cellular network operators to undercut Telkom's tariffs for local long-distance calls.

Separately, Indosat also predicted that the duopoly it shares with Satelindo in providing international telecoms services would end in 2001.

Jacob Wallenberg is to become chief of SE-Banken, financial flagship of Europe's most powerful family-run business empire

Jacob Wallenberg to head SE-Banken

By Greg McIvor in Stockholm

Mr Jacob Wallenberg, young scion of Sweden's leading industrial dynasty, is to become chief executive of Skandinaviska Enskilda Banken, the Swedish bank. He succeeds Mr Björn Svedberg, who is stepping down after five years in the post.

The change is the clearest move yet in a gradual shift in power to the fifth Wallenberg generation following the decision last year by *Mr Peter* Wallenberg, Jacob's father, to take a more withdrawn role in overseeing its interests.

SE-Banken is the financial flagship of Europe's most powerful family-run business empire, which includes controlling stakes in companies such as Astra, Electrolux, Ericsson and SKF.

Mr Jacob Wallenberg, 41, has long been considered by his father as joint heir to the empire with his cousin Marcus, a director of several Wallenberg companies.

He has been deputy managing director of SE-Banken, in which the family is the biggest shareholder with an 18.4 per cent stake, and head of its Enskilda investment banking arm since 1995.

His appointment triggered speculation of a resumption of merger talks with Nordbanken, the state-controlled Swedish bank. Negotiations broke down last month, apparently over Wallenberg fears of diminished influence in the merged concern, which would be the region's biggest bank.

SE-Banken's most-traded A shares rose SKr2 yesterday to SKr84.50; the banking index on the Stockholm bourse fell more than 1 per cent.

Mr Svedberg, who is also leaving the SE-Banken board, denied his departure was connected with the unsuccessful merger talks. His five-year contract is about to expire, although he said last year he would have to be "prised away" from the job.

"Clearly, the owners were disappointed when the talks broke down and they have done something about it," a senior Swedish banker said.

Mr Wallenberg takes over on April 29 and analysts said his arrival would improve prospects for fresh talks with Nordbanken.

Mr Svedberg piloted SE-Banken through Sweden's deep loan loss crisis at the start of the 1990s. It survived, but had to surrender its status *as Sweden's largest bank to* Svenska Handelsbanken.

SE-Banken's pre-tax profits were a record SKr4.7bn ($607m) last year on revenues of SKr17.8bn.

Mexico's Serfin set to announce deal with HSBC

By Daniel Dombey in Mexico City and George Graham in London

Serfin, Mexico's third largest bank, is expected to announce an association with HSBC Holdings, the international banking group, within the next few days.

The likely agreement follows an announcement by Serfin yesterday that continuing problems with poor quality loans pushed it deep into the red for 1996.

HSBC was unable to comment yesterday, but Serfin officials have acknowledged they are in talks with the world's largest banking group, which owns Hongkong Bank as well as the UK's Midland Bank.

Mr Adrian Sada, chairman of Grupo Financiero Serfin, said yesterday he expected to announce the sale of 19.9 per cent of Serfin's stock this week, but would not name the partner.

"We're on the point of closing the deal; I think we'll announce it in two more days. At the moment I can give no more details," he said.

While HSBC's business is now centred on Asia and the UK, it has been expanding in the US, where it owns Marine Midland, and in Latin America, where it has investments such as Banco Roberts in Argentina and Banco Bamerindus in Brazil.

Serfin's losses were 2.9bn pesos ($363m) for the fourth quarter of 1996, against a comparative loss of 205m pesos, and 7.5bn pesos for the year as a whole against a profit of 22m pesos for 1995.

Serfin said the heavy losses were primarily the result of aggressive loan loss provisioning. In the fourth quarter the bank put 2.9bn pesos aside for bad debts, as its loan portfolio continued to suffer from Mexico's difficult economic climate and the poor choices of the bank's previous loan managers.

According to new, more rigorous accounting methods, the bank's total past due loans of 14bn pesos accounted for 22.6 per cent of its total loan portfolio at the end of last month.

This is despite several hefty sales of bad loans to the Mexican government, most recently the sale of 10.3bn pesos of mortgage loans.

The bank said its total loan loss allowances represented 59.4 per cent of its past due loans.

The government yesterday said it would have the right to buy up to 5 per cent of Serfin's parent group, if it did not receive compensation of 3.6bn pesos for the losses expected on the mortgage loan portfolio sold to the government.

If the portfolio performs better than expected, this does not apply.

However, net interest income increased by 666m pesos for the year, to 4.14bn pesos, as interest rates stabilised and the bank began to match up its assets and its obligations more efficiently.

In particular, Serfin's new management, which took office a year ago, increased funding through deposits much faster than it did money market funding, which offers much less generous terms.

Santander pledges on returns

By Tom Burns in Madrid

Mr Emilio Botín, chairman of Banco Santander, Spain's biggest banking group, yesterday presented an annual report that detailed balance sheet strength in terms of assets and pledged increased returns for shareholders.

The high-profile presentation for 1996 underlined the bitter rivalry between Santander and Banco Bilbao Vizcaya for leadership of the domestic sector.

Stung by the growth of BBV, which reported a bigger volume of earnings in 1996 than Santander and has a larger stock market capitalisation, Mr Botín promised to raise his bank's return on equity from the current 15.6 per cent to 18-20 per cent over the next three years.

He also said he would raise accumulated earnings per share by a minimum of 15 per cent over the period.

Santander reported a 13.5 per cent rise in net attributable profits for 1996 to Pta85.6bn ($596m), compared with BBV's 24 per cent rise to Pta104.3bn.

Mr Botín forecast that Santander would lift net attributable profits, excluding extraordinary or non-recurring earnings, by 20 per cent this year and by at least 15 per cent in 1998 and 1999.

These forecasts compare with consensus estimates from analysts that Santander would lift its net attributable profit by 13 per cent this year, in line with 1996, and by 12 per cent next year.

Santander's annual report broke down the results of the group's different business units last year in exhaustive, individual profit and loss accounts.

The group is the most geographically diversified of the Spanish banks. It runs retail, wholesale and merchant banking networks at home and abroad and provides stockbroking and asset management services.

The report went well beyond the level of disclosure considered normal in the domestic banking community. Mr Botín claimed it set new transparency standards for the sector.

Mr Juan Cueto, chief analyst at Ibersecurities, the Madrid broking house, said: "Santander has been the first to show the bottom line, the attributable profit, right across its business."

The report revealed the strength of the group's balance sheet. Its debt portfolio has latent capital gains of Pta200bn, and it has a further Pta500bn to latent gains based on its stakes in foreign banks, such as First Fidelity of the US, where it is the biggest single shareholder, and Royal Bank of Scotland, of which it owns 10 per cent.

Bayer up 7% but downbeat

By Jenny Luesby

Bayer, the German chemicals company, yesterday unveiled a 7 per cent increase in 1996 pre-tax profits, but was downbeat about prospects for the coming 12 months.

Sales rose 9 per cent to DM48.61bn ($28.76bn). However, acquisitions and favourable currency movements accounted for three-quarters of this rise. On an underlying basis, sales rose 2 per cent in volume, while prices fell slightly.

Pre-tax profits rose from DM4.18bn last time to DM4.46bn. But this also reflected gains from acquisitions and disposals.

Mr Manfred Schneider, chairman, emphasised the continuing profit squeeze. Costs were still trending upwards, while "tough competition has not allowed the necessary price increases".

He forecast a rise in sales this year, to more than DM50bn. But on profits, he said: "Our target is to keep earnings at least at the current high levels, and if at all possible to achieve a further increase."

The markets reacted with disappointment to this outlook, and the shares closed down DM2.56 at DM68.85.

Most of the group's growth last year came to its plastics business, mainly because of the acquisition of several producers of ABS, the commodity plastic used to make computer housings and toys.

Another area of strength was agrochemicals, where operating profits rose 14 per cent on sales up 9 per cent.

In healthcare, expensive product launches saw underlying profits fall 7 per cent to DM1.69bn. However, this was more than offset by a DM180m exceptional gain on the sale of some consumer care product lines.

Restructuring at Agfa, the ailing films business, increased its return on sales to 3 per cent. Agfa accounts for 15 per cent of Bayer's sales. However, in the chemicals division, operating profit margins fell to 4 per cent, as earnings fell nearly 80 per cent on sales up 4 per cent, at DM9.58bn.

Bayer increased its dividend from DM1.50 to DM1.70.

Fellow chemicals company BASF reported headline results yesterday. Pre-tax profits were up 6.9 per cent, at DM4.41bn, on sales up 5.5 per cent, at DM48.77bn. It announced a 21 per cent increase in its dividend, to DM1.70.

Manfred Schneider: 'Our target is to maintain earnings'

Novartis raises dividend 19%

By Daniel Green

Novartis, the drugs company formed last year from the merger of Swiss rivals Ciba and Sandoz, is raising its dividend by 19 per cent, even though sales and profits last year grew at below industry average rates.

The board is proposing to lift the pay-out from SFr16.80 to SFr20 a share

Mr Raymund Breu, finance director, said the increase in the dividend pay-out from about 25 per cent of net income to 33 per cent represented a permanent change in policy.

"We have free cash flow of SFr3bn [$2.06bn] a year. We can return some of that to shareholders," he said.

Mr Alex Krauer, chairman, said the change reflected the increasing proportion of non-Swiss shareholders, especially the fact that 15 per cent of its shareholders are from the US.

"Investors in the US are accustomed to higher pay-outs," he said, adding that the growth prospects for the newly-merged business had encouraged Novartis to raise the dividend.

The increased pay-out was the highlight of the results yesterday, which showed growth in sales and profits at or below the levels of many of Novartis' US rivals.

Sales increased 8 per cent from SFr35.9bn to SFr36.2bn. Net profit declined from SFr4.22bn to SFr2.3bn, because of the costs of restructuring.

Excluding exceptional items, 1996 net profit rose 2 per cent from SFr4.10bn to SFr4.18bn.

Mr Daniel Vasella, chief executive, said that trading in the first two months of 1997 had been "good" and that the year would show a significant increase in profits over 1996.

He said the integration of the two companies was proceeding as planned. At least 60 per cent of the planned 10,000-12,000 job cuts would be made this year, with the remainder over the next two years.

In life sciences, the biggest division, sales grew 8 per cent to SFr27.6bn and operating income was up from SFr5.4bn to SFr5.6bn.

Within life sciences, pharmaceuticals' operating income rose from SFr3.7bn to SFr3.9bn.

Novartis said it had 85 pharmaceutical projects in clinical development. It planned to launch 29 new products in the next three years.

It singled out promising drugs in Alzheimer's disease, cancer, diabetes and irritable bowel syndrome.

EUROPEAN NEWS DIGEST

Michelin shares drop on results

Shares in Michelin, Europe's biggest tyremaker, fell sharply yesterday after the group unveiled a disappointingly small increase in annual profits. They closed down 6.2 per cent at FFr318.5, against a virtually static benchmark CAC-40 index, and in spite of the company's plans for a 20 per cent increase in its dividend, to FFr3.30 per B share.

Net attributable profit edged ahead only marginally, from FFr2.8bn in 1995 to FFr2.89bn ($507m), after the inclusion of FFr845m in exceptional losses.

David Owen, Paris

Tractebel details merger

Tractebel, the Belgian utility group, yesterday unveiled details of its merger with its partly-owned subsidiary, Powerfin. It will swap three Powerfin shares for one new Tractebel share, creating an enlarged group valued at about BFr250bn ($7.17bn). The merger will in effect turn a Belgian utility with an international subsidiary into a fully-fledged international group.

Tractebel yesterday said 1996 net profits rose 6.7 per cent to BFr12.09bn, on turnover up 7 per cent to BFr344.3bn. Earnings per share increased 5.6 per cent to BFr869, with the net dividend up 4.1 per cent to BFr385.

Neil Buckley, Brussels

Audi upbeat as profits climb

Audi, the luxury cars subsidiary of Germany's Volkswagen group, was yesterday upbeat on 1997 performance after more than doubling net profits from DM111m to DM302m ($179m) in 1996.

Pre-tax profits climbed 46.5 per cent to a record DM862m, underlining the sharp recovery since the early 1990s. Turnover rose 12.8 per cent to DM18.8bn, and unit sales 9.9 per cent to 492,046. *Sarah Althaus, Frankfurt*

US troubles drive ISS into red

Problems at its US subsidiary have driven International Service System, the Danish-based contract cleaning company, into a loss of DKr1.85bn ($287m) in 1996, and cut its year-end equity capital from DKr2.68bn to DKr876m. It blamed accounting irregularities and insufficient self-insurance cover at ISS Inc, which were discovered last summer. *Hilary Barnes Copenhagen*

Volvo to name new chairman

Volvo said it would name a new chairman today after the death yesterday of Mr Bert-Olof Svanholm, who had headed the Swedish car and truckmaker since 1994. Mr Svanholm, who also headed Sweden's industry federation, was appointed to the Volvo post after the failed merger with Renault in 1994. *Greg McIvor, Stockholm*

Eni edges ahead to L4,450bn

Eni, Italy's partially-privatised oil group, yesterday reported a 2.8 per cent rise in its 1996 consolidated net profits to L4,450bn ($2.63bn). Operating profits fell from L10,292bn in 1995 to L9,600bn, reflecting a slump in petrochemical earnings to L200bn from L2,018bn the year before. Sales rose only marginally by 1.3 per cent to L57,650bn. *Paul Betts, Milan*

Tele Danmark earnings fall

Pre-tax profits at Tele Danmark, the partly-privatised Danish telecommunications operator, fell 7.2 per cent last year, from DKr5.45bn to DKr5.06bn, and net profits declined 11.2 per cent from DKr3.49bn to DKr3.10bn, despite turnover ahead 22.7 per cent from DKr19bn to DKr23.30bn ($3.61bn). The group was hit by a steep drop in net financial income, from DKr1.16bn to DKr520m, reflecting a fall by DKr246m to DKr481m in net interest income. *Hilary Barnes, Copenhagen*

VNU seeks US acquisitions

VNU, the Dutch publisher, is seeking further acquisitions in the US, where it is talking to a number of target companies, according to Mr Joep Brentjens, chairman. He was speaking as the group yesterday announced a 16 per cent rise in net profits to Fl 316m ($166m) for last year, on sales 10 per cent higher at Fl 3.37bn.

Gordon Cramb, Haarlem

THE KRUPP HOESCH CHIEF EXECUTIVE

Cromme lives up to his reputation

By Michael Lindemann

There will have been wry smiles in boardrooms across Germany yesterday as news trickled out that Mr Gerhard Cromme, Krupp chief executive, was at it again.

His surprise bid for Thyssen, Krupp's larger rival, immediately evokes memories of Mr Cromme's highly secretive DM1.5bn ($888m) bid for Hoesch, the steel and engineering group based east of Krupp in the Ruhr town of Dortmund.

By picking on Thyssen, Mr Cromme has settled for his western neighbours this time, headquartered on the banks of the Rhine in downtown Düsseldorf, an urbane setting which is a world away from grimy Essen where Krupp is based.

For years Krupp and Thyssen have been edging towards closer co-operation. Several steel businesses, ranging from stainless to tin plate, have merged with either Thyssen or Krupp taking management control.

But things clearly were not happening fast enough for 53-year-old Mr Cromme.

As the architect of the Hoesch bid, Germany's only significant hostile takeover in decades, he and his four-man board have experience unparalleled in Germany.

They snatched Hoesch from under the noses of an unsuspecting Deutsche Bank, Germany's largest, which ran the Hoesch supervisory board.

They also saw off considerable pressure from the unions in the Ruhr region, which historically have close links with the Social Democrat government of North Rhine-Westphalia, the state where Krupp and Thyssen are based.

Both the unions and the politicians much prefer consensus to the sort of confrontation Mr Cromme was – and is again – offering.

The angry steel workers outside his office yesterday morning will have reminded Mr Cromme of the uglier scenes during the Hoesch takeover in 1992.

But Mr Cromme has sought to minimise the risks by bringing Germany's two biggest banks, Deutsche and Dresdner, on board as advisers, alongside Goldman Sachs, the US investment bank.

The financing has also been agreed with these three banks "and others", suggesting that Germany's banking community has, perhaps grudgingly, been persuaded that hostile takeovers can work.

That is in no small part due to the persuasive charm of teacher's son from northern Germany who first arrived at Krupp's steelworks in 1986.

At the time, the German conglomerate, mostly owned by the Krupp foundation, was hanging on by the skin of its teeth, big in industries with little growth.

Perhaps the greatest irony is that it was Mr Dieter Spethmann, Thyssen chief executive, who approached Krupp in 1988, suggesting that they sell out to their bigger neighbours in Düsseldorf.

Within nine years, Mr Cromme has ensured that the tables have been turned.

Gerhard Cromme: has sought to minimise the risks by bringing Germany's two biggest banks on board as advisers

THE THYSSEN CHIEF EXECUTIVE

Vogel faces uphill struggle

By Michael Lindemann

Dieter Vogel: one setback after another Reuter

News that Krupp was mounting a hostile bid for Thyssen, one of the world's best-known steelmakers, will have confirmed the impression that Mr Dieter Vogel has never really found his feet after becoming Thyssen chief executive a year ago.

When he took over last March, he became the first chief executive at Thyssen who did not come from tha steel industry. Given his background at Bertelsmann, the media group, and years at a German *Mittelstand* company, a change of culture was widely expected.

That change has not, however, gone quite as Mr Vogel planned.

The telecoms strategy which he hatched at Thyssen Handelsunion, the trade and services subsidiary which he ran for 10 years before taking the group's helm, is largely discredited.

He failed to win the bid for the Deutsche Bahn telecoms network last summer and has not yet found a heavyweight international partner.

Moreover, the fact that Thyssen is mostly in cyclical businesses such as steel and engineering meant analysts were loath to believe it had the funds to mount a credible telecoms strategy.

The telecoms setback seemed innocuous, however, when state prosecutors made a dawn raid on Mr Vogel's house last August, armed with an arrest warrant.

As boss of Thyssen's Handelsunion, Mr Vogel masterminded the takeover of AHB-Metallurgiehandel, the biggest metals trading company in former East Germany.

Following the takeover, Thyssen executives are alleged to have inflated bills for retraining and other services and pocketed the proceeds. Mr Vogel rushed back from holiday into a Düsseldorf courtroom and the arrest warrant was quickly suspended. However, the Berlin state prosecutors are continuing their investigations.

Last November, Thyssen announced a restructuring of its activities, selling off the defence equipment business and withdrawing from coal and oil trading.

However, Mr Vogel's measures have not won the sort of epplause from analysts which Mr Geerhard Cromme has earned for his more ambitious changes et Krupp.

Moreover, while Mr Vogel inspires fierce allegiance among Thyssen executives, he lacks the charisma which has helped Mr Cromme turn Krupp around.

Thyssen has vowed to find partners to help fight off Krupp, and as Germany's biggest steelmaker that is no idle threat. Mr Vogel, though, is already on his back foot after last year's setbacks, and be looks to be facing an uphill struggle to turn the tables on Krupp.

COMPANIES AND FINANCE: ASIA-PACIFIC

Michiyo Nakamoto reports on repositioning among Japanese telecoms carriers

Japan Telecom to merge with ITJ

Japan Telecom, the long-distance operator, and ITJ, the international carrier, yesterday unveiled details of a merger that will create Japan's second-largest wireline operator and the third-largest telecoms company on a consolidated revenue basis.

This is the first merger in the Japanese telecoms industry. The two companies, which last week confirmed they were in talks, will merge in October to provide seamless services by combining Japan Telecom's domestic network with ITJ's international network.

The offer terms are 12 shares in Japan Telecom, which is affiliated to private railway companies, for each share in ITJ.

ITJ's shareholders include most of the leading trading companies and Matsushita, the consumer electronics maker.

Japan Telecom is forecasting revenues of Y400bn ($3.23bn) in the year to March 1998 and recurring profits of Y41bn.

Mr Koichi Sakata, president of Japan Telecom, will be president of the new company.

Mr Toru Ogawa, president of ITJ, will be executive vice-president.

It will create the second largest Japanese telecoms company offering wireline services, and the third largest telecoms group if mobile operations are included. That is after NTT, the largest operator, and the DDI group, which has long-distance and cellular operations.

The deal comes in response to deregulation and intensifying international competition.

In particular, this year the Japanese government is lifting the barriers between international and domestic operations, which had restricted NTT, the industry giant, to domestic business, and KDD, the largest international carrier, to international services.

The move is forcing smaller Japanese telecoms companies to form alliances in order to survive greater competition.

ITJ, a smaller carrier, faces an increasingly harsh international market, where cheap call-back services have undermined profits.

Recurring profits at ITJ dropped 85 per cent from Y2bn in the first half of last fiscal year to Y300m in the first half of this year.

This was mainly due to the adverse impact of call-back services, points out Mr Eric Gan, industry analyst at Goldman Sachs in Tokyo.

Analysts said that the merged company would still face a difficult time competing effectively with NTT, even after NTT breaks up in two years into one long-distance and two regional carriers under a holding company.

The newly-merged company would compete with the long-distance NTT, which has revenues of about Y900bn, compared with Japan Telecom's forecast revenues of Y500bn in 1999.

NTT mulls partnership

NTT, Japan's largest telecoms operator, is considering investing in an undersea fibre-optic cable network together with AT&T, the US telecoms group, and China's telecommunications ministry.

The investment in the US-China cable would be a first for NTT.

It highlights the company's ambitions to become a significant international competitor, once it is allowed to conduct international business later this year.

The project is expected to cost Y100bn ($806m) over three years and will span a route that has drawn growing telecoms traffic.

NTT's investment would help secure use of the cable when NTT enters the international market, points out Mr Eric Gan, industry analyst at Goldman Sachs in Tokyo.

NTT's plans to enter the market have already triggered moves among Japanese companies to form alliances to compete with the world's largest telecoms carrier.

Japan Telecom's merger with ITJ is the most recent example, while KDD, Japan's largest international operator, has tied up with telecoms operators linked with the power companies.

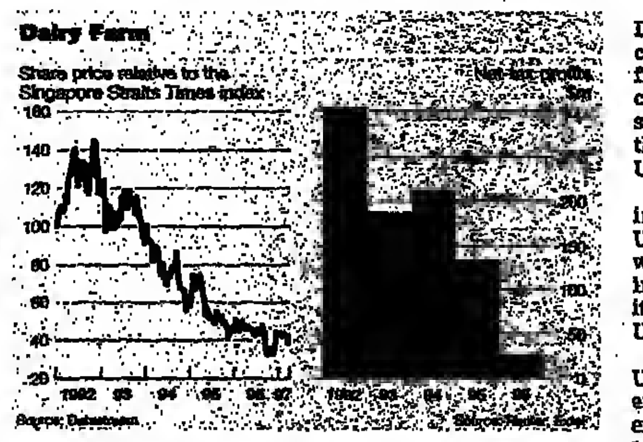
NTT said it had not yet reached a decision on the investment, but that such an investment would be in line with its policy, outlined by Mr Junichiro Miyazu, president, to form partnerships with different companies to build up international operations.

Foreign telecoms companies such as AT&T, British Telecommunications and Deutsche Telekom have been courting NTT to be the Asian partner in their global alliances.

Mr Miyazu said earlier this year that NTT would link with a number of partners on a case-by-case basis, rather than sign up to one global alliance.

Provisions hit profits at Dairy Farm

By John Ridding in Hong Kong



Dairy Farm, the food retailing arm of the Jardine Matheson group, yesterday announced a 79 per cent fall in net profits last year, to US$27.9m, after provisions of US$77.5m for restructuring at its Australian and UK operations.

Despite the sharp fall, the group maintained the full-year dividend at six US cents.

Mr Chris Nelson, acting chief executive and head of a new management team which took over last summer, said the provisions for Franklins in Australia marked a decision to accelerate an overhaul of stores.

Dairy Farm said the restructuring, which involves changing "no-frill" stores to fresh produce stores, was yielding strong improvements in trading performance in Australia but added that continued investments would "hold back profit recovery for the next two years".

The provisions for the UK, which amounted to US$39.4m, followed the previously announced restructuring at Kwik Save, of which Dairy Farm owns 29 per cent. Mr Edouard Ettedgui, finance director, said the company had no intention of selling the stake and backed the restructuring plan at its UK associate.

Before provisions, operating profits fell from US$145.7m to US$97.9m, while earnings per share, including non-recurring items, fell 80 per cent to 1.60 US cents.

Sales rose 12 per cent to US$6.97bn, while capital expenditure of US$247m enabled the group to open 143 new stores, taking the total to 1,518 at the end of 1996.

Despite the problems in Australia and the UK, Dairy Farm pointed to bright spots, including the performance by Maxim's Caterers, steady sale and profit growth in ong Kong, and strong performances in Singapore and New Zealand.

Mr Nelson said the focus of future expansion would be in Asia, whee the group is investing in southern China and India.

Setbacks in Australia over the past few ears, including a slow reaction to Sunday trading and exceptional losses relate to inventory errors, have contributed to a series of disappointing results.

However, Mr Ettedgui said the company's financial position remained robust. At the end of 1996, the net debt-to-equity ratio stood at about 15 per cent, while cash flow from operating activities rose from US$260.4m in 1995 to US$289.9m.

Shindongbang abandons hostile bid for Midopa

By Jack Burton in Seoul

Shindongbang, which launched one of South Korea's first hostile takeover bids by trying to acquire Midopa department stores, has abandoned the move in response to opposition from big business groups.

The takeover collapsed after Sungwon Construction, which originally supported the bid by Shindongbang, switched sides by selling its 12.6 per cent stake in Midopa to its current owner, the Dainong group.

The deal gave Dainong a secure 45.5 per cent stake in Midopa, one of Korea's leading department store chains.

Shindongbang had mounted its bid with the support of Korea Industrial and the Peregrine financial group of Hong Kong.

Sungwon defected to Midopa's current owners after the Federation of Korean Industries, which represents the nation's leading conglomerates, warned last week it would act to stop any hostile takeovers in an effort to maintain economic stability.

Shindongbang launched the bid for Midopa in anticipation of new merger and acquisition rules that would allow hostile takeovers from next month.

Strong rise at Asia Satellite

By Louise Lucas in Hong Kong

Asia Satellite Telecommunications yesterday reported a big increase in net profits in its first full-year results since listing in New York and Hong Kong last June.

Net profits more than doubled, from HK$169.6m in 1995 to HK$394.8m (US$51m) last year.

Mr Peter Jackson, chief executive officer, said the main engine of growth were the addition of two operational satellites last year and greater than anticipated demand for transponders, in part a result of general growth in Asian economies.

Earnings per share also more than doubled, from HK$0.43 in 1995 to HK$1.01 last year. The debut dividend is HK$0.10 a share.

Australian banks eye securitisation route

This week's US$700m bond issue by Puma, Australia's largest mortgage securitisation company, is likely to be the first of many Australian mortgage-backed issues, bankers and analysts say.

Not only is Australia changing its regulations to exempt such issues from witholding tax, but more banks are likely to turn to securitisation as pressure on interest margins reduces the return from keeping loans on their balance sheets.

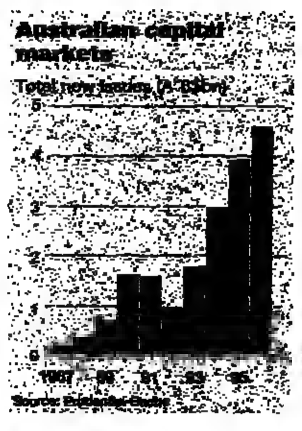
"The argument that securitisation is not economically viable is now erroneous," says Mr Stephen Kench, of Prudential-Bache Securities.

Two years ago, margins on mortgage-backed securities issued in the Australian market were 60 basis points over bank bills. Now, thanks to demand from Australia's fast-growing pension funds, that margin has dropped to less than 20 basis points.

According to Mr Kench, the opening up of an international market in Australian mortgage-backed securities is likely to depress the margin further to about 10 basis points.

With competition pushing mortgage lending margins down to only 150 basis points, it makes sense for banks to securitise their mortgages and pay back surplus capital to shareholders.

So far, Westpac is the only bank to have gone this route. Mr Marten Touw, Westpac group treasurer,



says the bank expects to securitise soma A$3bn ($US2.38bn) worth of mortgages this year.

Westpac has opened a mortgage processing centre in Adelaide to help generate additional business. It aims to imitate US mortgage companies which use securitisation to transact large volumes while committing small amounts of capital.

"What's driving us is return to our shareholders," Mr Touw says. At 14.6 per cent, Westpac's return on equity is the lowest among Australia's four largest banks.

Using the growth of Citibank's mortgage securitisation in the US as a model, Mr Kench calculates that Westpac's return on equity could grow to 16.5 per cent by 2000 as securitisation increasingly permits it to repurchase surplus capital. Earnings per share would also be higher.

Other banks have yet to follow Westpac's example. Even at the current depressed level of mortgage margins, they say they are still enjoying a reasonable return.

"The economics are not there to justify removing assets from the balance sheet," says Mr Greg Conway, head of mortgages at National Australia bank. Some believe banks' ability to swallow the halving of mortgage margins over the last two years suggests they were making excessive returns in the past.

"Non-bank lenders have been quite successful in their campaign to persuade the consumers that the banks were just milking them," says Mr Patrick Eng, of Moody's Investor Services.

But, according to Mr Kench, the lower cost of issuing mortgage-backed securities means there would now be a net benefit to all four leading banks from securitising loans and paying back capital.

That benefit is greatest at National Australia Bank, since its capital ratio is higher than at other banks, he says. However, given its heavy concentration of price-sensitive domestic loans on its balance sheet, the temptation to securitise may be greatest at Commonwealth Bank, he adds.

Peter Montagnon

Further warning hits Dorling shares

By Christopher Price

Dorling Kindersley surprised investors yesterday when the publisher of highly distinctive reference books and CD-Roms issued its second profits warning in little over three months.

Its statement sent the group's shares down 16 per cent and left them almost halved from their level prior to the December announcement.

DK blamed the latest warning, which accompanied its interim results, on difficult conditions in the US book and multi-media markets. Analysts, who had reduced their full-year profit forecasts by 10 per cent in December to £18.5m on currency concerns, yesterday cut them to about £10.5m ($16.7m). Last year, the company reported pre-tax profits of £17.4m.

In a further surprise move, the company said it was changing its accounting policy to write-off the costs of developing its software titles as they were incurred. Around £2.5m of the reduction in the new forecasts was attributed to the change of policy.

Peter Kindersley: US book market a 'bloodbath'

Mr Peter Kindersley, chairman and chief executive, described the US book market as a "bloodbath" with independent retailers going under as a price war intensified among discounting superstores. As well as impacting on margins, retailers had also responded by cutting stocks and reducing orders.

In an attempt to sidestep the US retailing market, DK was expanding its direct selling operations, DK Family Learning. The network has 9,200 agents in the US out of 20,000 globally. Mr Kindersley said he hoped to be "well on the way" to sourcing 50 per cent of group revenues from DKFL by 2000.

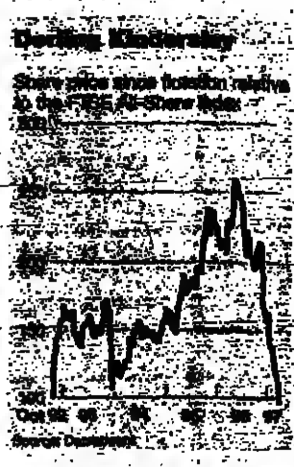
Pre-tax profits for the half year rose 9 per cent to £8.77m on a restated basis. Under the old accounting system, profits increased 4 per cent to £8.44m. Turnover rose 10 per cent to £88.4m.

Despite the tough conditions, sales in the US rose 8 per cent to £36m. This was underpinned with a 79 per cent rise in DKFL sales to £7.7m. Sales in the UK increased 17 per cent to £27.1m, while the rest of the world improved 6 per cent to £25.9m. During the period, sales operations had started in Russia and Australia at a combined cost of £1.2m.

The multimedia division was the best performer, raising sales by a third to £13.1m.

LEX COMMENT

Dorling



Dorling Kindersley has demonstrated the penalties incurred by growth stocks that fail to grow. Its shares have fallen 58 per cent from their peak last May, considerably more than pre-exceptional profit forecasts. At least the problem is neither management nor demand for its reference books and multimedia CD-Roms. It is primarily a change in the US retail market, but this makes it far harder to predict when the problem can be resolved. Superstores have been killing off small independent retailers, and in turn changing the terms of trade for Dorling. There has been destocking and a squeeze on prices, but the pain is not over.

That said, Dorling still has growth potential. The UK business performed strongly. And even in the US, the development of its own direct sales operation is paying off. This is fortunate, because it is investing considerable sums in replicating this Family Learning sales channel from Russia to Australia.

The company has clearly chosen to write off 1997, and has introduced a more conservative accounting policy which will knock £4m off profits. That leaves the shares trading at 20 times forecast 1998 earnings. At first sight this looks demanding, since the Kindersley family's holding makes the group bid-proof. Nonetheless, the accounting changes will boost earnings as development costs tail off. And given the strength of the Dorling brand and the prospects for the multimedia business, the rating looks more than justified.

Stakes lifted in London casino battle

By Scheherazade Daneshkhu, Leisure Industries Correspondent

The battle in the London casino market intensified yesterday when Capital Corporation, the target of a £191m ($310m) hostile bid from London Clubs International, queried the predator's ability to run up-market casinos.

Capital, which operates two London casinos and has 20 per cent of the London market, said operating profits at London Clubs' Ritz casino had fallen by 52 per cent since flotation in 1994. London Clubs had cannibalised the Ritz to feed the success of Les Ambassadeurs, said Mr Garry Nesbitt, chairman. Its casino in Cannes had lost £21m over six years, he added.

Mr Nesbitt also attacked London Clubs' overseas operations, suggesting that its Egyptian and Beirut operations were at political risk. He questioned whether its Las Vegas, South Africa and Brussels projects would materialise. He urged shareholders to consider "whether London Clubs' share price has risen too far on over-blown hopes of distant and risky ventures".

London Clubs' 47-for-100 all-paper hostile bid had been launched as a defence, he said, against the success of Capital's second London casino, the Colony Club, which had grown its market share from 3 per cent to 10 per cent.

But Mr Alan Goodenough, chief executive of London Clubs, denied the claim and said London Clubs, which has roughly 45 per cent of the market, had increased its share last year: "Capital's track record does not allow it to put up a credible defence." Asked whether he was considering raising his offer after the first closing date on Tuesday, he said he did not rule anything out.

Capital also reported an expected fall in pre-tax profits from £13.1m to £9.2m in 1996 due to fewer "high rollers" in the final quarter and exceptional costs. These included £2.8m for the Colony Club relaunch and £1.3m consultants' fees and other expenses after weaknesses in the group's purchasing systems had been identified.

Mr Ernest Sharp, deputy chairman, said Mr Nesbitt could never claim to be "a super-duper administrative kingpin" but had taken the necessary action to put things right. A proposed final dividend of 6p maintains the total at 8.125p.

Mr Alan Hearn, chief executive, said the new year had started well. "Shareholders should not give away value and should reject this derisory offer".

Capital shares fell 3p to 210p, compared with the 191p value of the offer. London Clubs rose 1½p to 407p.

BSG sells motor division

By Richard Wolffe

BSG International yesterday marked an end to 84 years of car salesmanship when it sold off its Bristol Street dealerships for £72m.

BSG – which started life in 1913 with a Ford dealership in Bristol Street, Birmingham – agreed to split in two by hiving off its motor distribution arm to concentrate on manufacturing automotive and aircraft products.

The company will be renamed Britax International, after its brand of car components and child seats.

However Britax is to retain a 20 per cent stake in the new motor distribution business, Brismoco, made up of the Bristol Street sales operation and part of BSG's leasing operations.

The management of Bristol Street, backed by Legal & General Ventures, is paying £69m in cash and taking £4m of debt for its 80 per cent stake in Brismoco.

BSG is looking to sell separately its profitable leasing business, Autolease, thought to be valued at about £60m.

Bristol Street's sale led to an exceptional charge of £27.5m for goodwill and losses on disposals in 1996. As a result, pre-tax profits fell from £24.1m to £9.29m.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baradis	Yr to Dec 31	0.878	(1.35)	0.557	(0.834)	2.72	(4.32)	2大	Apr 16	2.75	2	2.75
Britannic Assurance	Yr to Dec 31	408.8□	(387.2□)	83.9	(63.8)	34.4	(26.2)	23	-	10.8	28	15.4
BSG Intl	Yr to Dec 31	958	(842.6)	9.29♠	(24.1♠)	3.43L	(5.04)	2.75	July 1	2.5	3.52	3.2
Capital Corp	Yr to Dec 31	43.1	(51.4)	9.25♠	(13.1♠)	6.28	(8.68)	6	-	6	8.125	8.125
Charter	Yr to Dec 31	999.9	(1,128)	46♠	(97.5)	13.7	(67.5)	20.5	May 23	19	29.5	27.5
Claremont Garments	Yr to Dec 28	185.9	(172.9)	3.05♠	(12.9)	3.8L	(16.1)	5.25	July 1	5.25	9.87	9.65
Delta	Yr to Dec 28	950	(1,019)	45.6♠	(53.1♠)	15.2	(20)	14.4大	July 1	14.4	18.9	18.9
Derwent Valley	Yr to Dec 31	19.1■	(14■)	7.5♥	(4.4)	17.44†	(11.41)	4.2	June 9	3.77	6.1	5.5
Dorling Kindersley	6 mths to Dec 31 ★	88.4	(80.5)	6.78	(6.23)	6	(5.3)	1.5	May 23	1.5	-	4.5
Elecо	6 mths to Dec 31	13.9	(12.8)	1.56L♠	(0.096L)	4.4L†	(0.3L)	nil	-	0.25	-	0.5
Ex-Lands Props	6 mths to Dec 31	4.23	(5.01)	0.37	(0.873L♠)	0.32	(0.9L)	-	-	-	-	0.5
Fisher (James)	Yr to Dec 31	38	(30.2)	5.07♥	(5.31♥)	15.45†	(22.5)	1.75	May 7	1.5	2.75	2
Glynwed Intl	Yr to Dec 28	1,324	(1,252)	70.1♠	(84.2♠)	18†	(25.76)	8.35	June 6	8.35	12.75	12.75
Graseby	Yr to Dec 31	105.8	(92.8)	10.5♥	(6)	11.9	(5.9)	3.9	May 27	3.9	6.6	6.6
Hall Engineering	Yr to Dec 31	230.8	(192.8)	13♠	(7.72♠)	21.76†	(15.25)	6.25大	Apr 25	6.25	10.025	10.025
Hampden	Yr to Dec 28	41.5	(36.8)	1.83	(1.52♥)	7.27	(6.3)	1.8	June 27	1.5	2.4	2
Hardy Oil & Gas	9 mths to Dec 31 ‡‡	37.1	(63.3)	6.18	(5.96L♠)	5	(5.8L)	1	June 5	1	1	1
IAF	6 mths to Dec 31 ★	4.82	(3.49)	0.494♠	(0.801)	2.18@	(4.43)	2.5	Apr 9	2.5@	-	7@
London Town Φ	15 mths to Dec 31+	2.82	(0.007)	0.184	(0.01L)	6.42†	(0.8L)	2	Apr 22	-	2	-
Lopex	Yr to Dec 31	121.3	(132.3)	1.49L♠	(1.46♠)	2.1L	(1.41)	0.45	May 23	0.25	0.75	0.5
Manders	Yr to Dec 31	162.5	(154.8)	5.49♠	(11.6♠)	17.45	(20.24)	8.4	May 27	8.4	11.5	11.5
Mayborn	Yr to Dec 31	53.8	(49.1)	6.5	(5.61)	19.8†	(16.6)	5.5	May 30	4.95	8	7.2
Meggitt	Yr to Dec 31	298.3	(358.2)	24.3	(21.5L♠)	7.3	(13.4L)	2.85	July 4	2.63	4.2	3.93
Ockham	Yr to Dec 31 ⁂	50.8	(23.4)	9.08♥	(9.81L♥)	6.1	(14L)	3	June 11	2.75	4	3♦
Paterson Zochonis	6 mths to Nov 30	180.2	(175.8)	14	(13.2)	19.25	(16.81)	5.5#	May 2	2.65	-	16
Roxboro	Yr to Dec 31	108.4	(93.7)	13.8	(16)	18.8	(19.7)	4.4	Apr 25	4	8.6	6
Royal Doulton	Yr to Dec 31	251.8	(242.8)	17.8	(15.2)	21.7	(20.4)	7.4	June 6	6.5	9.65	6.5
Secure Trust	Yr to Dec 31	-	(-)	9.43	(9.19)	44.2	(43.4)	14	May 20	12.5	20	18§§
Servomex	Yr to Dec 31	32	(26.2)	3.55	(2.37♠)	21.5	(13.8)	5.8	May 16	5.2	8.5	7.5
Singapore Para	Yr to Dec 31	0.724	(1.03)	0.714♥	(0.81)	5.18	(5.52)	3.5大大	Apr 18	3.5	3.5	3.5
Spandex	Yr to Dec 31	98.5	(85.6)	9.88	(8.52)	19.5	(16.3)	2.1	July 14	1.85	3.2	2.85
Watmoughs	Yr to Dec 31	221	(208.4)	22.2♥	(23.7♥)	21.7	(23.8)	7.7	Apr 30	7	10.45	9.5
Wilson (Connolly)	Yr to Dec 31	300.3	(245)	26.5	(22.5)	9	(8.1)	3.44‡	June 2	3.18	4.8	4.54
Wolseley	6 mths to Jan 31	2,285	(2,080)	124.3	(111)	14.63†	(13.42)	3.3	July 31	3.1	-	10.35

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Gartmore Smaller	6 mths to Feb 28	387.7	(340.3●)	0.306	(0.364)	2.2	(2.6)	1.5	June 3	1.5	-	5.75
Law Debenture	Yr to Dec 31 ★	827	(744.3)	7.59	(6.08)	33	(26.8)	18.75	May 1	14.75	25	22.25
Perpetual UK Small	Yr to Jan 31	352.4	(305.8)	1.57	(0.351)	11.2	(4.7)	9.6	Apr 29	2.3	9.6	2.3

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. 大Foreign Income Dividend. □Premium income. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ■Gross rental income. ★Comparatives restated. ‡‡Comparatives for 12 months to March 31 1996. @After share consolidation. ΦAim stock. +Comparatives for 12 months to September 30 1995. ⁂Comparatives pro forma. ♦Annualised. #To reduce disparity. §§Excludes 10p special. 大大Includes FID element. ‡Special second interim of 5p also declared. ●At August 31.

LucasVarity makes US disposal

LucasVarity, the Anglo-US engineering group, has sold the North American aerospace subsidiary which was at the centre of a Pentagon inquiry over falsified product inspection documents 18 months ago, writes Virginia Marsh.

Lucas Industries, which merged with Varity Corporation of the US last year, paid $88m in October 1995 to settle claims against Geared Systems, its Utah-based maker of aircraft gearboxes.

Rolls-Royce, the UK aerospace and engineering group, is buying the business for an undisclosed sum.

The disposal is part of LucasVarity's £250m restructuring, involving the disposal of 13 non-core subsidiaries.

Glynwed hurt by exceptional

By Richard Wolffe, Midlands Correspondent

Charges relating to its long-awaited disposal programme lay behind a 17 per cent fall in pre-tax profits at Glynwed International in 1996.

Profits at the diversified engineering group declined to £70.1m ($111.45m) pre-tax after a £16.2m exceptional loss on the disposal of several businesses, including Wednesbury Tube, its copper tube company.

Wednesbury, which was part of the original Glynwed group, was sold to Mueller Industries of the US for £12.5m at the beginning of this month.

Mr Bruce Ralph, chief executive, said the underlying businesses were held back by a combination of the collapse in stainless steel prices and weak continental European markets. Stainless steel prices fell 40 per cent last year, cutting profits in the metal distribution division to £12m (£21.8m).

Construction products operations – many of which were still in line for disposal – suffered poor exports reflecting continued low demand from the Continent.

That was offset by a strong performance in consumer products, including the Flavel-Leisure and Aga-Rayburn stove and cooker businesses. Operating profits in the consumer and construction division fell to £20.2m (£20.6m) on sales up to £374.9m (£352.5m).

Glynwed is preparing to launch a range of cast-iron cookware under the Aga brand to rival Le Creuset pots and pans, and to be sold through its expanded chain of retail outlets.

In pipe systems, demand from UK water companies remained strong, while gas pipe sales ended the year positively. With a full year contribution from the former Victaulic operations, operating profits rose by a third to £34.3m (£25.7m) on sales up from £245.1m to £367.7m.

Mr Ralph said Glynwed was keen to find bolt-on acquisitions for its pipe systems operations.

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TWA losses deepen to $262.5m

By Richard Tomkins in New York

Trans World Airlines, the troubled US carrier, suffered a severe setback to its planned recovery in the fourth quarter to December, the company's long-delayed results showed yesterday.

Net losses deepened from $31.4m a year earlier to $262.5m, or $5.56 a share – far worse than analysts had expected.

In early New York trading, the shares shed $1¼ to $6 7/16, a fall of 7 per cent.

TWA has failed to make an annual profit since 1988 and has twice heen into bankruptcy since 1992.

Its ettempts to stage a recovery have been hindered by heavy debts and relatively high operating costs.

The company suffered a further eetback last July when e Boeing 747 operating its flight 800 from New York to Paris exploded in the air off New York'e Long Island, killing everyone on board. The cause remains a mystery.

TWA's heavy losses in the fourth qnarter pushed the company into net losses of $321.2m, or $7.27 a share, for the full year, compared to losses of $227.5m the year before.

Operating losses were $198.5m, compared with operating profits of $25.1m the year before.

Mr Gerald Gitner, who reluctantly agreed to become chairman and chief executive after the departure of Mr Jeffrey Erickson last October, said TWA bad experienced "an interruption" in the process of rebuilding the airline in 1996.

Mr Gitner blamed an over-ambitious expansion plan last summer that resulted in extensive delays and cancellations and widespread inconvenience to customers. The crash of flight 800 had also had "an unquantified but significant" effect, he said.

At the end of last year TWA revealed plans for big cuts in services in and out of New York and the replacement of its jumbo jets with smaller aircraft on long-haul and international routes.

Mr Gitner said that the company had hegun to implement a flight schedule that was realistic and could be flown reliably.

TWA said its cash balance at the year-end was $181.6m, down from $304.3m a year earlier.

Mr Glenn Engel, an analyst at Goldman Sachs, said: "It's a deeper hole to get out of than you would want."

In January, it was reported that a New Jersey-based investment group called Strategic Capital and Russia's Transaero airline had together held takeover talks with TWA, but TWA said yesterday that it had not had any recent contacts with them.

BMW takes shine to US production

Local tastes may mean a sports utility follows the popular Z3, says Haig Simonian

For the youngsters of Spartanburg, South Carolina, spotting German sports cars on the Interstate is no longer a challenge.

Two years after sales to customers started in March 1995, BMW's showcase $600m car plant has become part of the landscape. The Z3 convertible, locally built, has grown so familiar that employees may soon he allowed to lease them cheaply as a perk.

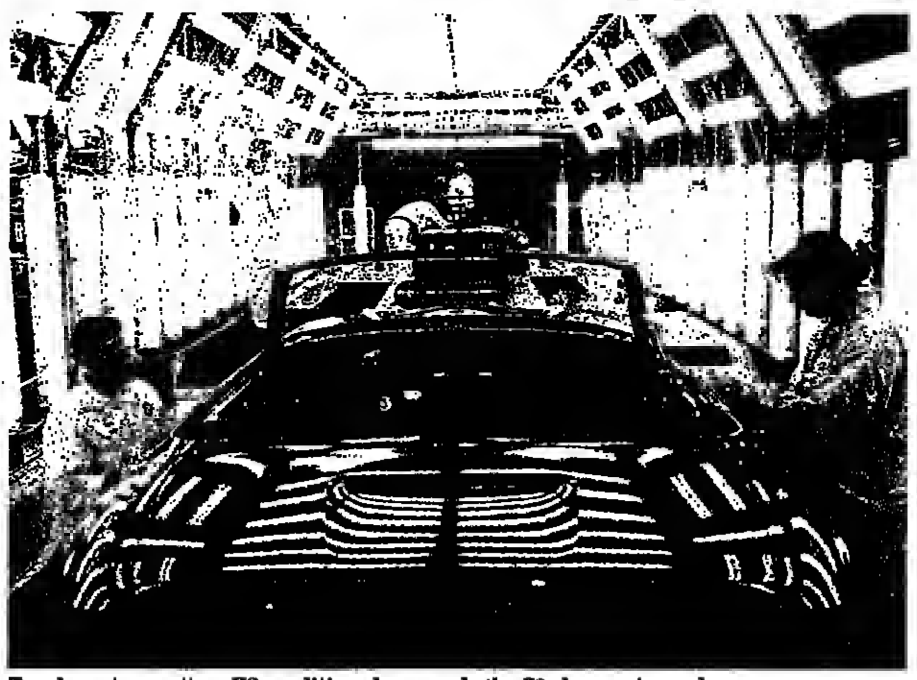
The challenge is not even to guess what sort of car will follow the highly successful Z3. It is an open secret that production will start soon of a coupé version of the roadster, with sales starting early next year.

The real qnestion is what comes after that. Mr Bernd Pischetsrieder, BMW chairman, admits Spartanhurg will build a second naw model by tha end of the century. That is when demand for the Z3, which has surged during the current craze for convertibles, is expected to wane.

Spartanburg was conceived for hullding two vahicles. Although BMW stopped producing its 3 Series saloon at the factory in August 1996 to meet burgeoning demand for tha Z3, few analysts believe Spartanburg will remain a single-product plant.

Tha question is what it will produce. BMW is investing $200m to expand output in the body and assembly areas from a ceiling of 300 cars a day to 400. That will take Spartanburg's capacity to about 90,000 cars a year, while the workforce should grow from about 2,000 today to almost 2,500 by 2000.

However, the company is extremely cagey about its future model plans for Spartanburg. Mr Pischetsrieder speaks of "an advanced BMW Touring concept" – referring to the the company's name for the station wagon derivatives of its saloon models.



Top-down innovation: US conditions have made the Z3 cheaper to prodnce

BMW-watchers suggest the new vehicle will be some sort of "super-Touring" – combining the versatility of BMW's station wagons with soma all-terrain capability in an innovatively-styled package. Mr Piscbetsrieder emphasises that the new vehicle will ba more than just a beefed-up station wagon.

Motor industry analysts have speculated tha company will develop a sports utility vehicle to challenge Mercedes-Benz's new M-Class, which is soon to enter production at a greenfield plant in the nearby state of Alabama.

Selecting a sports utility for Spartanburg would make sense. It would end Mercedes-Benz's monopoly as the only German car company making sports utilities in the US. Tha M-Class, to be introduced in the third quarter, will have a cost advantage over similar vehicles imported from Europe or Japan because it will be built at a brand new, non-unionised US site.

Mr Fritz Geri, financial controller at Spartanburg, reckons that at $18, basic hourly pay rates at non-unionised greenfield factories such as those of BMW and Mercedes-Benz are "pretty much in the same range" as in Germany. The difference however, is the big social security contributions which almost double the cost of a worker in the German motor industry.

US motorists' apparently insatiahle appetite for sports ntilities is an additional reason for such a vehicle to be Spartanburg's oext model. The "light truck" segment, which includes sports utilities and pick-nps, remains the most buoyant sector of the car market – and BMW has no equivalent model to the M-Class.

The company has always argued it had no need to develop a competitor, as sports utilities were the preserve of Land Rover – the off-road brand acquired as part of Rover in 1994.

However, even with Land Rover's launcb of the Freelander – a slightly less rugged off-roader aimed at urban drivers, and scheduled to go on sale around the end of 1997 – there may still be a gap in the BMW group model line-up. And although producing Land Rovers in the UK is cheaper than building BMWs in high-cost Germany, neither location can compete with a hrand-new US plant.

Any new vehicle must distinguish itself from the group's existing products. That has triggered speculation that Spartanhurg may hecome the source for an unconventional vebicle, drawing upon elements of station wagon, sports utilities and, just possibly, multi-purpose "people carriers".

Mr Pischetsrieder argues traditional barriers between vehicles are coming down. "Current categorisations – such as limousine, coupé or off-roader – will increasingly be replaced by new mixed concepts," he says.

Commercially, such a vehicle would allow BMW to capitalise on the three most huoyant segments of the car market in the US and Europe.

With the right balance of unusual styling and astute pricing, tbe German company could develop a car which would not cannibalise sales of either BMW or Land Rover models.

BMW's US sales, after falling to a low of 51,000 units in 1991, more than doubled to almost 106,000 last year – partly because of keener pricing after the harsh lessons of the early 1990s, when sales of most European luxury car brands dived because of strooger competition from new Japaneee rivals and consumers' sense of over-pricing.

Spartanburg is one reason why BMW's performance has changed. More tban 20,000 of the 52,000 vehicles built there in 1996 – the plant's first full year of production – were sold in the US.

With a second new model perhaps in the pipeline, Spartanburg's role in BMW looks set to grow.

Wascana agrees C$1.7bn takeover

By Bernard Simon in Toronto

Saskatchewan-based Wascana Energy has agreed to a C$1.7bn (US$1.2bn) takeover offer from Canadian Occidental Petroleum, 30 per cent owned by Califnrnia-hased Occidental Petroleum.

CenOxy's cash bid of C$22.50 a share is substantially more generous than the C$18.50 in cash and shares offered last month hy Talisman Energy, the former Canadian subsidiary of British Petroleum.

Wascana had rejected Talisman's hid, and advised shareholders to hold out for a better offer.

The deal would vault CanOxy into the top ranks of Canadian oil and gas prodncers, with ontpnt of 115,000 barrels of oil equivalent a day in Canada, and 264,000 barrels worldwide.

The two companies would also control 3.6m acres of exploration properties in western Canada.

Both CanOxy and Talisman have extensive international interests and see the acqnisition of Wascana as a means of boosting their exposure to western Canada. CanOxy's foreign operations are centred on the US, the North Sea and Yemen. The company also has an industrial chemicals division.

CanOxy said yesterday that the deal would boost its projected cash flow from about C$5.35 to C$6.60 per share this year, with a similar increase expected in 1998. The purchase will be financed by debt, but analysts said its balance sheet would absorb the extra borrowings without undue strain.

Wascana shares gained C$1 to C$20.35 at midday in Toronto yesterday. CanOxy was up C$1.50 to C$18.75.

The offer is conditional on approval by holders of two-thirds of Wascana shares. Shares in Wascana, set up by the Saskatchewan provincial government in 1973 as a window on the local energy industry, are now widely held.

The government is the biggest single shareholder, with a 7 per cent stake. It cleared the way for a takeover bid last December by removing remaining ownership curbs. Wascana has granted CanOxy a right of first refusal on any rival offers, and agreed to pay a 2 per cent "break-up" fee "in certain circumstances".

AMERICAS NEWS DIGEST

T. Eaton seeking outside investors

T. Eaton, the family-owned Canadian retailer under court protection from its creditors, has begun a search for outside investors as part of its restructuring effort.

The 127 year-old chain, whose 85 department stores are a landmark in almost every Canadian city, has hired RBC Dominion Securities and Goldman Sachs to put a value on the company, and "to investigate the possibility of a merger with, or sale to, another retailer".

Eaton's, with debts totalling C$330m (US$241m), plans to close as many as 31 of its existing stores by mid-1997.

Several well-known Canadian retailers have fallen on hard times in recent years. Consumer spending is only now starting to pick up after a lengthy slump.

In addition, an invasion of powerful US chains, including Wal-Mart, the Arkansas-based discount retailer, has intensified competition.

The Eaton family's extensive broadcasting and property interests are not affected by the retail chain's difficulties.

Bernard Simon, Toronto

Shell joint venture progresses

Shell Oil is to hold a majority stake in a new US refining, marketing and transport group to be formed by the merger of its western and mid-western upstream assets with those of Texaco.

The company will be 56 per cent owned by the Royal/Dutch Shell subsidiary and its US partner, which yesterday announced the signing of an understanding to press ahead with the venture, unveiled last year.

Full agreement was expected by the second quarter, and the companies reported "significant progress" in separate negotiations over absorbing the eastern US refining and marketing assets of Star Enterprise, a joint venture between Texaco and a subsidiary of Saudi Aramco.

Although some jobs would be lost in the transition period, as cost-cutting took effect and operating efficiencies came into play, the partners said they ultimately expected the venture to create new employment.

The link is among the most ambitious of several planned in the international oil industry, where volatile margins and intense competition at the retail level have long been a source of concern.

Assets to be merged include eight refineries, 76 oil and product terminals and 10 lubricants plants. Oil exploration, production and chemicals manufacture are not included in the venture.

Christopher Parkes, Los Angeles

PW combines practices

Price Waterhouse, the Big Six accountancy firm, is formally to combine its European and US practices under a new management team. The new organisation will cover 85 per cent, or about $4bn, of the firm's fee earning services. Mr Ian Brindle, the UK senior partner, announced the change in London yesterday.

It is the latest in a series of moves by Big Six firms designed to give clients a truly multinational service. The new organisation will cover the US, Mexico, parts of Central America, Europe, the Middle East and Africa.

The rest of the Price Waterhouse organisation is expected to join later.

The new group will consider strategic investments. The chairman of the management team will be Mr Jermyn Brooks, currently chairman of PW Europe, chief executive will be Mr Jim Schiro, chairman of US firm. Also in the team are Mr Ian Brindle and Mr Woody Brittain of the US firm. Each national firm will remain a separate legal entity and keep its own management. This is partly to help defend the firms against facing cross-border legal liability.

Jim Kelly, Accountancy Correspondent

BellSouth buys into Ecuador

BellSouth said it had purchased a 61 per cent stake in Ecuadorean mobile telephone company OTECEL for an undisclosed amount, buying all the shares of OTECEL's two largest shareholders, Planer Overseas and Discovery.

AFX News, New York

INTERNATIONAL CAPITAL MARKETS

Uncertainty over FOMC casts pall

GOVERNMENT BONDS

By Richard Adams and Samer Iskandar in London and Lisa Bransten in New York

A mood of "nervous anticipation" kept government bond markets on the defensive yesterday, with prices falling and yields continuing to rise in Europe.

A stronger D-Mark and weaker US dollar, along with negative comments by a member of the Bundesbank council over Germany's participation in European monetary union and uncertainty over a rise in US interest rates next week, combined to keep bond prices down.

Mr Andrew Roberts, a gilt analyst at UBS in London, said: "Everyone is worried ahead of next week's FOMC meeting – for international investors it's not a bond-positive outlook."

He said the mood of the market was "nervous anticipation – there's no panic selling going on".

German bund futures lost 0.40 in London, to settle at 100.01, as the D-Mark surged against the dollar and sterling. In the cash market, 10-year yields rose to 5.91 per cent, up four basis points.

UK gilts also fell, but again outperformed their German counterparts. The yield spread of gilts over bunds narrowed by three basis points to 171 points. The long gilt future settled at $110\frac{5}{32}$, a fall of $\frac{7}{32}$.

Swedish bonds fell for the fourth consecutive session, with the 10-year benchmark bond losing 1.55 to close at 103.69, its yield spread over German bunds widening by 14 basis points to 150 points. This bond has fallen by more than 4.5 percentage points since last Wednesday and its spread has widened by 37 basis points.

Yesterday's fall was described as technical, with the "downward spiral feeding on itself", according to one trader.

US Treasury prices were flat by midday in spite of bearish data on housing construction.

The yield on the 30-year bond jumped to 6.99 per cent after the release of housing data showing a 12 per cent rise in new starts to 1.53m in February, outstripping expectations of about 1.43m.

But the yield later moved back towards Monday's levels as many decided that the rise was due more to mild weather than a heating up in the economy, said Mr Kevin Sluder, senior government bond trader at First Chicago.

By early afternoon, the long bond was off $\frac{1}{8}$ at $95\frac{19}{32}$ to yield 6.954 and the two-year note was unchanged at $99\frac{31}{32}$, yielding 6.184 per cent. The March 30-year bond future slipped $\frac{1}{32}$ to $109\frac{3}{32}$.

Mr Ed Yardeni and Ms Debbie Johnson, of Deutsche Morgan Grenfell, said that "while housing activity is strong we still believe the upside is limited".

Traders will be focusing on today's release of consumer price data and next week's meeting of the Federal Reserve's Open Market Committee.

● The London International Financial Futures and Options Exchange yesterday suspended its December 1997 future on Italian BTPs.

"The suspension will enable Liffe, if necessary, to promptly make any required change to the contract specification," the exchange said.

The most likely modification would be a change in the underlying coupon, currently set at 12 per cent.

Because yields on 10-year BTPs have declined substantially on optimism that Italy might join Emu as a founding member, the price of Liffe's BTP futures has risen from less than 109 to over 124 in the past 12 months. Reducing the coupon would bring the futures contract in line with prices of BTPs in the cash market, where the coupon of the benchmark 10-year bond is 7.75 per cent.

Irish gilts suffer hangover after St Patrick's Day

Irish government bonds suffered from a St Patrick's Day hangover yesterday, writes Richard Adams. With its market closed on Monday to celebrate Ireland's patron saint, Irish gilts missed out on the day's sharp slide in European government debt prices.

But yesterday, with European and US yields continuing to move higher, Irish yields raced to catch up.

The 10-year benchmark bond fell by 1.85 to 106.96 compared with Friday's closing price, with its yield rising by 25 basis points to 6.96 per cent. The yield spread against German bunds, which stood at 99 basis points on Friday, widened to 105 basis points by yesterday's close.

Traders in London said prices had been marked down in the morning in anticipation of a fall in reaction to the previous day's turbulence, coupled with an auction of 10-year paper also held yesterday.

Mr Oliver Mangan, chief bond economist at AIB Group Treasury in Dublin, said the auction had been "better than expected," in spite of the negative knock-on.

Ireland's National Treasury Management Agency said the auction of I£150m bonds, with an 8 per cent coupon and due in 2006, was covered 3.06 times, with an average price of 106.91 and a yield of 6.96 per cent. Ten per cent of the stock went to the lowest accepted price of 106.85, yielding 6.97 per cent. The issue will become the 10-year benchmark.

Mr Rob Jarrett, an Irish gilt trader at UBS in London, said there had been some fears of a bloodbath in the morning, but that the auction coverage had buoyed the market, with late buying coming from domestic investors.

Italy's euro issue sets benchmark

INTERNATIONAL BONDS

By Edward Luce

Italy's debut foray into euro-denominated debt took the markets by storm on what would otherwise have been a deathly quiet day. Traders felt the E1bn offering, jointly led by Paribas and SBC Warburg, was priced cheaply with a yield of 18 basis points more than seven-year French OATs in ecus.

The offering – only the second to be denominated in euros since the European Investment Bank's E1bn issue earlier this year – quickly tightened on the secondary markets.

"This was very generously priced," said one trader in London. "Italy probably wanted to ensure that the bearish sentiment in the markets did not upset what was intended to be a set-piece launch."

SBC Warburg and Paribas said distribution was very evenly spread across the main European markets. "Italy has established a broad and liquid line of investors for future euro-denominated issues," said one syndicate official. "This will undoubtedly be the benchmark for other sovereign issues in euros this year." Bankers said one of the main aims of the exercise was to boost Italy as a contender to become a founding member of European monetary union.

Elsewhere, RBS Participacoes, the Brazilian communications company, offered a generous spread on its \$125m offering. The 10-year bond, which was priced to yield 429 basis points over US Treasuries, quickly tightened by 10 basis points in the secondary market.

The bonds were distributed mainly to US investors, including insurance companies and dedicated emerging market funds. About 15 per cent went to European investors and roughly 10 per cent to Latin America. The debt was rated at Brazil's sovereign ceiling of B+.

Commerzbank continued the vogue for eurorand debt, with a R100m two-year offering. Issued at a re-offer price of 99.82, the coupon was set at 15.25 per cent. Hambros, lead manager, said that there was strong retail demand for shorter-dated rand debt in spite of the recent extension of the yield curve to 30 years.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Kerry Properties Capital(c)§	250	2.00#	100.00	Jun 2007	2.50	-	JP Morgan Securities
RBS Participacoes(l)	125	11.00#	100.00R	Apr 2007	1.00R	+429(6¼%-07)	JP Morgan Securities
■ EUROS							
Republic of Italy(a)	1bn	6.00	99.25R	Apr 2004	0.30R	+18(6%-04)	Paribas/SBC Warburg
■ ITALIAN LIRE							
Deutsche Finance Neths(b)	1000bn	zero	7.00	Jan 2032	0.25	-	Deutsche Morgan Grenfell
■ RAND							
Commerzbank(l)	100	15.25	100.95	Apr 1999	1.25	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Payments in Ecu prior to Emu. b) Fungible with L3000bn. c) Conversion price: HK\$21.50. FX: 7.7474HK\$/US\$. Puttable on 25/3/02 at 129.712%. Callable from 25/3/99 subject to 130% hurdle. Greenshoe: \$50m. § Long 1st coupon.

CAPITAL MARKETS NEWS DIGEST

Huntsman revises funding plan

Huntsman Specialty Chemicals, which is acquiring the Texas chemical businesses of Texaco in a \$878m transaction, has cancelled a planned \$150m bond issue in favour of a 10-year private term-loan. The innovative structure, arranged by Bankers Trust, will have some bond-like covenants.

"From an investor's standpoint, this loan is more senior than an issue of subordinated notes," said Mr Daniel Toscano, a vice-president in the US loan syndication group at Bankers Trust. "It also offers the borrower more flexibility."

Although the loan will be more expensive than a note issue, it offers more flexible early redemption possibilities. It also allows Huntsman to avoid costly and time-consuming disclosure requirements associated with the issuance of securities. *Samer Iskandar*

Monep prepares for euro

Monep, the French options exchange, is planning to create a new class of temporary instruments to facilitate the transition to the single European currency – the euro. As a result, existing options on the CAC-40 index of the Paris bourse will be split into two instruments. For example, assuming an exchange rate of FFr6.56321 for E1, an existing FFr50 CAC-40 option would be worth E7.64. Monep said such a contract would be split into seven "whole" contracts worth E1 each and one "broken" contract worth E0.64.

Concerning options on individual shares, instruments created after the beginning of 1999 will have strike prices in euros. They will run in tandem with existing options carrying strike prices in French francs but which will be settled in euros. Monep said these measures would be temporary, and that it would incite users to switch swiftly to the final euro-denominated contracts. On April 1, Monep will start listing its first series of options maturing after January 1999. *Samer Iskandar*

ICTSI launches notes

International Container Terminal Services (ICTSI), the Philippine port operator, yesterday issued \$111m worth of seven-year convertible notes to foreign investors. Proceeds will be used to finance the group's domestic expansion projects, including the modernisation of the Manila International Container Terminal.

The notes, which pay an annual coupon of 1.75 per cent, will be listed in Luxembourg. The offering was underwritten by Jardine Fleming International and includes a "greenshoe" – an option to increase the amount by another \$18.6m up to April 12.

ICTSI is set to rebid in the controversial privatisation of Subic Bay container terminal. In January, President Fidel Ramos ordered Subic Bay authorities to reopen the bidding, overturning their decision to award the contract to Hong Kong's Hutchison Whampoa. *Justin Marozzi, Manila*

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	91.8894	-0.450	7.96	7.82	7.32
Austria		5.625	01/07	98.2600	-0.460	5.86	5.64	5.69
Belgium		6.250	03/07	101.5000	-0.640	6.04	5.74	5.64
Canada *		7.000	12/06	102.8300	-0.170	6.60	6.48	6.41
Denmark		6.000	03/06	108.4400	-0.920	6.72	6.30	6.36
France	BTAN	5.500	10/01	103.0467	-	4.76	4.57	4.47
	OAT	6.500	10/06	105.6500	-0.060	5.72	5.48	5.54
Germany Bund		6.000	01/07	100.6100	-0.300	5.91	5.68	5.68
Ireland		8.000	08/06	106.9600	-1.850	6.96	6.60	6.52
Italy		7.750	11/06	99.6500	-0.530	7.80†	7.35	7.09
Japan	No 143	6.300	09/01	121.5744	-0.420	1.32	1.31	1.38
	No 182	3.000	09/05	105.1336	-0.610	2.29	2.32	2.39
Netherlands		5.750	02/07	99.7200	-0.380	5.79	5.43	5.49
Portugal		9.500	02/06	115.5000	-1.200	7.11	6.82	6.70
Spain		7.350	03/07	100.4300	-0.470	7.23	6.90	6.71
Sweden		8.000	08/07	103.6917	-1.550	7.47	6.88	6.79
UK Gilts		8.000	12/00	103-08	-4/32	7.01	6.80	6.68
		7.500	12/06	100-07	-5/32	7.47	7.26	7.27
		8.000	10/08	111-02	-4/32	7.55	7.35	7.36
US Treasury *		6.250	02/07	96-20	+4/32	6.72	6.60	6.46
		6.625	02/27	95-25	+7/32	6.96	6.85	6.76
ECU (French Govt)		7.000	04/06	104.6100	-0.580	6.32	5.98	5.91

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.20
Prime rate	$8\frac{1}{4}$	Two month	-	Three year	6.37
Broker loan rate	7	Three month	5.28	Five year	6.56
Fed.funds	$5\frac{3}{16}$	Six month	5.49	10-year	6.73
Fed.funds at intervention	$5\frac{5}{16}$	One year	5.76	30-year	6.97

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	127.90	127.92	-0.40	128.16	128.10	256,400	152,727
Sep	126.20	126.32	-0.40	126.20	126.10	90	1,853
Dec	95.80	96.02	-0.40	-	95.80	-	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
128	0.41	0.87	1.21	0.49	0.95	1.29
129	0.10	0.45	0.75	1.18	1.53	1.92
130	0.02	0.20	0.43	2.10	2.27	2.50
131	0.01	0.07	0.23	3.09	3.14	3.29
132	-	0.03	0.12	4.08	4.09	4.17

Est. vol. total, Calls 44,089 Puts 41,899. Previous day's open int., Calls 131,868 Puts 138,598.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.85	100.01	-0.40	100.37	99.67	327447	229131
Sep	99.30	99.16	-0.38	99.30	99.29	146	708

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
10000	0.28	0.79	1.04	1.15	0.25	0.78	1.03	1.99
10050	0.06	0.54	0.77	0.95	0.57	1.03	1.26	2.29
10100	0.02	0.35	0.57	0.77	1.01	1.34	1.56	2.61

Est. vol. total, Calls 28755 Puts 42256. Previous day's open int., Calls 216782 Puts 230592

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	124.20	124.17	-0.18	124.74	123.80	83193	108696
Sep	123.90	124.22	-0.18	123.90	123.90	73	2606

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
12400	1.91	2.84	1.74	2.82
12450	1.64	2.56	1.97	2.84
12500	1.39	2.30	2.22	3.08

Est. vol. total, Calls 4584 Puts 8585. Previous day's open int., Calls 84982 Puts 89579

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	112.31	111.31	-0.93	112.32	111.23	78,069	28,156
Jun	110.50	110.75	-0.80	110.99	110.04	148,181	61,002

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	110-28	110-21	-0-07	110-28	110-20	1899	28868
Jun	110-06	110-05	-0-07	110-18	110-01	72933	179467

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
110	0-25	1-10	1-38	2-07	0-15	1-00	1-28	2-27
111	0-06	0-45	1-06	1-42	0-60	1-35	1-60	2-62
112	0-01	0-28	0-46	1-16	1-65	2-16	2-36	3-38

Est. vol. total, Calls 1100 Puts 6804. Previous day's open int., Calls 67503 Puts 32381

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	96.38	96.26	-	96.38	96.16	1,022	2,132
Jun	93.72	93.00	-0.78	93.72	92.50	2,277	4,495

US

■ US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	109-08	109-12	+0-04	109-14	108-27	4,652	67,581
Jun	108-23	108-27	+0-03	108-30	108-08	259,913	418,565
Sep	108-07	108-08	-0-01	108-14	108-07	458	24,542

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	125.90			125.99	125.74	2973	na
Sep						0	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Mar 18	Day's change %	Mon Mar 17	Accrued interest	xd adj. ytd		Low coupon yield Mar 18	Mar 17	Yr. ago	Medium coupon yield Mar 18	Mar 17	Yr. ago	High coupon yield Mar 18	Mar 17	Yr. ago
1 Up to 5 years (19)	120.49	-0.05	120.55	2.21	2.86	5 yrs	7.13	7.10	7.55	7.18	7.15	7.89	7.23	7.20	7.88
2 5-15 years (21)	150.32	-0.12	150.49	2.85	2.12	15 yrs	7.62	7.60	8.30	7.61	7.60	8.33	7.53	7.44	8.45
3 Over 15 years (6)	170.25	-0.03	171.15	3.87	3.18	20 yrs	7.69	7.67	8.37	7.64	7.64	8.39	7.54	7.45	6.50
4 Irredeemables (5)	196.71	-0.69	198.07	4.29	1.00	Irred.†	7.77	7.71	8.39						
5 All stocks (51)	144.48	-0.08	144.75	2.62	2.64										

Index-linked							Inflation 5% Mar 18	Mar 17	Yr. ago	Inflation 10% Mar 18	Mar 17	Yr. ago
6 Up to 5 years (2)	203.49	0.08	203.37	0.62	2.16	Up to 5 yrs	3.25	3.28	3.02	2.59	2.80	1.81
7 Over 5 years (10)	196.53	0.18	196.17	1.23	1.81	Over 5 yrs	3.54	3.56	3.80	3.36	3.37	3.62
8 All stocks (12)	196.20	0.17	195.86	1.16	1.83							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Mar 18	Mar 17	Mar 14	Mar 13	Mar 12	Yr ago	High*	Low*
Govt. Secs. (UK)	94.58	94.71	95.24	95.20	95.50	92.09	96.74	91.59
Fixed Interest	118.23	118.69	118.91	118.35	119.43	110.98	120.18	110.74

Gilt Edged Activity Indices

	Mar 17	Mar 14	Mar 13	Mar 12	Mar 11
Gilt Edged bargains	NA	76.5	82.6	83.9	83.1
5-day average	NA	81.5	83.3	84.6	84.9

 * for 1996/97. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treas 7½pc 2006‡‡	7.48	7.47	100¼	-¼	103⅞	94⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on March 18

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	97¾	98		6.96
ABN Amro Bank 7¼ 00	1000	100	100¼	-⅛	7.38
African Dev Bk 7½ 23	500	97½	98	+⅛	7.60
Alberta Province 7⅝ 98	1000	101⅞	102		6.34
Asian Dev Bank 6¼ 05	750	95¼	95⅞		7.03
Austria 8½ 00	400	104¾	105		6.60
Baden-Wuert L-Fin 8¼ 00	1000	103¼	103⅝		6.63
Bancomext 7¼ 04	1000	91⅞	92⅝		9.05
Bank Ned Gemeenten 7 99	1000	101⅛	101¼		6.46
Bayer Vereinsbk 8¼ 00	500	103¼	103⅝		6.63
Belgium 5½ 00	1000	99	99¼	-⅛	6.34
Spain 7¼ 03	4000	102⅛	102⅜	-⅛	5.37
Volkswagen Intl Fin 7 03	1000	107½	107⅝	+⅛	5.53
World Bank 5¼ 03	3000	103⅛	103¼	-⅛	5.30
World Bank 6¼ 02	3000	104⅞	104⅞	-⅛	5.11
World Bank 7⅛ 05	3000	108½	108⅝	-⅛	5.76
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	41¼	43¾	-⅛	4.30
Austria 4½ 00	1000	103	103¼	-⅛	2.33
Denmark 4¼ 99	1000	104⅞	105		2.25
EIB 3¾ 99	1000	103¼	103½	-⅛	1.95
EIB 6¾ 04	300	116⅞	117¼	-⅛	4.19
Abbey Natl Treasury 8.03 £	1000	101¼	101½	-⅛	7.73
British Land 8⅞ 23 £	150	100¾	101¼	-⅛	8.99
Denmark 6¾ 98 £	800	100	100¼		6.71
Depfa Finance 7⅛ 03 £	500	96⅝	97	-⅛	7.76
EIB 8 00 £	1000	102½	102¾	-⅛	7.47
Finland 7 00 £	000	99½	99¾	-⅛	7.14
Glaxo Wellcome 8¾ 00 £	500	104½	104¾	-⅛	8.00
HSBC Holdings 11.69 02 £	153	115¾	116⅛	-⅛	7.95
Italy 10½ 14 £	400	121⅜	121⅝	-⅛	8.14
Japan Dev Bk 7 00 £	200	99⅞	99¾	-⅛	7.18
Land Secs 9½ 07 £	200	109	109¼	-⅛	8.15
Ontario 11⅛ 01 £	100	111⅝	111⅞	-⅛	7.57
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS; DEUTSCHE MARK STRAIGHTS; YEN STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS: [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Election delays key merger decisions

By Ross Tieman

Key decisions that will shape the future of the UK's brewing, ferry and airline industries are expected to be delayed until after the General Election on May 1.

Six reports from the UK Monopolies and Mergers Commission are expected to be delivered to ministers between now and polling day. They include a study of the proposed takeover of brewer Carlsberg-Tetley by Bass, and of the mooted merger of cross-Channel ferries operated by Stena and P&O.

Although DTI officials insist business will continue "as normal" in the run-up to the election, it is expected that any successor to Mr Ian Lang, trade and industry secretary, would want to review unpublished merger decisions.

Officials at the European Commission also indicated yesterday it was extremely unlikely that the Commission would rule on the controversial planned link-up between British Airways and American Airlines. "You won't hear from us before May 1," said one. A decision had been expected within weeks.

The spate of competition reports pending between now and polling day is highly unusual.

The MMC is due to deliver its next report, into the planned takeover by Bass of brewer Carlsberg-Tetley, on Monday.

Under UK competition rules, if the MMC concludes a merger will not be against the public interest, the Secretary of State must approve it. The announcement will normally come four to six weeks later once commercially sensitive information has been excised from the report.

But if the MMC expresses concerns, the Secretary of state has powers to clear the deal, block it, or impose onerous conditions on the parties.

Any such decision taken between now and polling day is likely to be open to review by his successor because of the delay ahead of publication.

An MMC inquiry into the price control regime of Northern Ireland Electricity is scheduled for delivery to the Northern Ireland Office by March 28.

The report into the proposed P&O-Stena merger is due by April 4.

A report into the price-control regime for British Gas TransCo should reach Mr Lang on April 13, to be followed by a study of the proposed merger of two leading suppliers of bulk chocolate in the UK, Klaus Jacobs Holdings and Scia.

A massive eight-part report into the supply of domestic electrical goods in the UK is expected at the end of April.

A 'bigger hit' could be taken in the second half, chief executive warns

Currency loss curbs Wolseley rise

By Andrew Taylor, Construction Correspondent

Malcolm Watson

John Young: expects continental markets to remain difficult

Wolseley, the world's largest distributor of heating and plumbing equipment, yesterday became the latest in a string of companies to warn that sterling's rise was denting profits.

The company, which announced a 12 per cent rise in pre-tax profits to £124.3m (£111m) for the six months to the end of January, reported a £4.2m reverse on currency translation.

Mr John Young, chief executive, warned that there could be an even bigger hit on foreign exchange in the second half. The shares dipped 1½p to 496p.

Wolseley generated 45 per cent of trading profits of £124.8m (£113.6m) in the US. It also has large interests in France and Austria.

Lonrho, the UK conglomerate, warned on Monday that a combination of strong sterling, weak platinum prices and a disappointing performance in Africa, was likely to reduce profits by a third in the first half.

ICI and British Steel have also warned that the pound's rise against both the dollar and continental European currencies, particularly the D-Mark, would damage profits. Mr Young said it was difficult to forecast second half currency losses since sterling was entering a volatile period in the run-up to the general election.

The pound has fallen 3 per cent in the last fortnight against a trade weighted basket of currencies, but remains 14 per cent stronger than last August.

Wolseley increased US profits in the first half by almost 22 per cent to £56.6m (£46.4m), and by 16 per cent after stripping out the effect of acquisitions and currency losses.

European profits, including the UK, dipped 3.3 per cent to £47.6m (£49.2m), but rose 1.6 per cent on a like-for-like basis. Manufacturing profits rose 15 per cent to £20.6m.

"The UK housing market remains fragile and is unlikely to deliver much benefit to our UK distribution activities until later this year," said Mr Young. "We have yet to see a consistent pattern of improvement across all regions of the UK.

"Continental European markets are also expected to remain very difficult as governments continue to cut back on public spending to satisfy the Maastricht criteria for European Monetary Union."

In the US, housing had slowed and a "note of caution must once again be sounded as to the effect of any interest rate rises on business and consumer confidence," he said.

Earnings per share rose 9 per cent to 14.63p (13.42p).

COMMODITIES AND AGRICULTURE

LME to report stocks daily

By Clay Harris

The London Metal Exchange will introduce daily reporting of stocks held in its 400 warehouses from April 7.

The change from twice-weekly reporting, initially for a six-month period, is part of the LME's implementation of changes proposed by a Securities and Investments Board review in the wake of the Sumitomo copper affair.

Mr David King, LME chief executive, said yesterday that daily reporting was a move towards transparency that should "take the guesswork out of stocks", but apparent volatility might sometimes increase with more frequent information.

The change was approved by the LME board on Monday. An extraordinary general meeting of members on the same day gave the go-ahead to a shake-up of the governing board's structure. Additional changes are expected in coming months.

"We regard this as an evolutionary step rather than a revolutionary step," Mr King said. It had been "implemented after consultation with LME's key stakeholders - its members, users and the regulatory authorities".

He added that the LME's trading volumes were 14 per cent up on the comparable period for last year "so, clearly, LME's users have maintained their confidence in our market".

The board has been expanded from 16 to 18 by increasing the number of invited outside members from four to six.

The amended constitution also says that two of the six must have "substantial experience of the metals trade or business" and four must have "no current connection". The board had not decided yet whether to seek to fill the vacancies by word of mouth or by using a headhunter. Directors serve one-year terms, with a 12-year limit. Outside members would be paid the "current prevailing rates for non-executives in the City," Mr King said. Monday's meeting removed previous limits on fees for non-executives.

Also on the board are eight directors representing "ring" members, the companies taking part in the exchange's daily "open outcry" trading, three non-ring directors and Mr King.

Outside directors will now be chosen by all directors, rather than just those representing ring members.

As part of its implementation of points raised in the review, LME has increased its annual budget to about £10m ($15.87m), a 25 per cent rise. Some of the new resources will go towards increasing staffing at the exchange, from 40 to about 50, with the main emphasis on strengthening the compliance department.

Australia to restructure meat sector

By Nikki Tait in Sydney

Australia's federal government yesterday released plans for a restructuring of the country's troubled red meat industry, under which promotion and marketing would shift from government-funded bodies to a new producer-owned organisation.

Mr John Anderson, the federal primary industries minister, said that the government intended to scrap the sector's three statutory authorities – the Australian Meat & Livestock Corporation, the Meat Research Corporation and the Meat Industry Council.

Instead, a new producer-owned company would be set up to handle promotion, food safety, research and market access issues. It would be funded by levies on beef, sheepmeat and goat meat producers and would include separately-managed marketing for the beef and sheepmeat sectors.

Meat processors and livestock exporters, meanwhile, would be asked to establish separate marketing companies. The processor and livestock companies would have to fund these on a voluntary basis, although the government would reserve the right to reintroduce compulsory levies if necessary.

Australia's red meat industry has annual sales of around A$4.5bn (US$3.6bn), and is one of the country's biggest export-earners. However, it has battled tough conditions recently – ranging from a prolonged drought in eastern Australia, to disease and chemical residue scares. High levels of US beef production coupled with weak import demand from some Asian markets have also produced a sharp drop in beef prices.

According to the latest forecasts from Abare, the government-owned agency, beef and veal exports are set to fall to around A$2.02bn in 1996-97, compared with A$2.85bn two years ago.

Mr Anderson claimed that the changes would give producers, processors and exporters "more ownership and accountability" for their industry.

But he also acknowledged that there were big divisions within the sector over how best to structure marketing-related activities – with some of the smaller players, such as the sheepmeat farmers, worried that their mutton product could lose out to the bigger beef sector. "Regrettably, the industry was not able to reach a full consensus view on the new structures," he noted.

This warning was quickly borne out when the National Meat Association, representing employees in the industry, described the government's plan as unworkable and divisive, and both the Cattlemen's Union and the United Graziers' Association expressed strong reservations. The Cattle Council of Australia, the main beef producers' body, said that it was disappointed with some aspects of the structure but believed it could be made to work.

Ross Gray

Raw hide: Australia's red meat industry is beset by a range of problems

Surge in platinum comes to an end

MARKETS REPORT

By Philip Coggan, Markets Editor

Sharp falls in palladium and platinum yesterday seemed to represent a sell-off after the speculative surge that has lifted prices in recent weeks.

The strong run of the two metals has owed much to stories about Russia, which is the world's biggest supplier of palladium. It has yet to sign a contract with Japan, the biggest user of the metal. Meanwhile, there were threats of strikes at the Norilsk combine, which produces much of Russia's platinum.

There were rumours yesterday that Russia might be about to reopen negotiations with Japan.

One dealer was reported as saying that "a sharp movement will be a forerunner of an announcement that talks or shipments have started".

However, Mr Andy Smith, metals analyst at Union Bank of Switzerland said that "speculative buying has just been reversed. There was a strong derivatives element to the decline." Spot palladium dipped $9 to $142 an ounce while April platinum on Nymex fell $7.10 to $374.50 an ounce, after recently touching $160 and $400 respectively.

Gold also declined, after a late dip on Monday. In London it was fixed at $346.30 an ounce from $349.35 on the previous day.

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	-6,100	to 889,825
Aluminium alloy	-440	to 72,960
Copper	-3,800	to 197,450
Lead	-425	to 108,225
Nickel	+606	to 46,542
Zinc	-2,650	to 463,300
Tin	-195	to 9,085

COMMODITIES NEWS DIGEST

Philippines sugar discount defended

The Philippine Tariff Commission yesterday defended the 35 per cent tariff discount on refined sugar imports from the Association of South-East Asian Nations (Asean) and blamed the industry's woes on speculation by importers.

Mr Emmanuel Velasco, chairman of the Tariff Commission, said locally-produced refined sugar was competitive at 17.95 pesos a kilo compared with imports at 26.60 pesos ($1) a kilo, even with a 65 per cent tariff, but high sugar imports were still recorded between 1995 and early 1996. Imports grew from 12,155 tonnes in 1993 to 156,304 tonnes in 1996.

Under preferential trading agreements, Asean countries receive a 35 per cent discount on the 100 per cent tariff levied on sugar imports. Last March, the Philippine government also imposed qualitative curbs on "sensitive agricultural products", which include sugar.

The announcement comes at a highly sensitive time, a fortnight after the financial collapse of Victorias Milling, the country's largest sugar miller. Last week, amid calls from sugar farmers and millers for a more protectionist policy, Mr Wilson Gamboa, head of the Philippine Sugar Regulatory Administration, ordered the extension of the curbs on imports until July. *Justin Marozzi, Manila*

W Australia gold tax detailed

The Western Australian state government yesterday gave further details of a possible gold royalty tax, saying it could be introduced at 1.25 per cent from next January and then increased to 2.5 per cent over the next 18 months to two years. The latter rate was described as "the standard royalty for that type of mineral".

But the proposal brought immediate criticism from the goldmining industry, which has already claimed that such a tax would be detrimental to the sector's smaller players and drive marginal producers away. Mr Peter Lalor, managing director of Sons of Gwalia, said such a move would come at a particularly bad time, with the industry already under pressure from falling gold prices and facing uncertainties created by native title legislation.

Mr Richard Court, WA premier, has promised to consult the industry before introducing any royalty arrangements, and industry representatives are due to meet state officials next week. *Nikki Tait, Sydney*

Zambian project advanced

First Quantum Minerals, the Canadian miner, is ahead of schedule with its copper tailings project in Zambia and plans to advance the start-up date, Mr Clive Newall, the company president, said yesterday.

The company, developing the first private mining project in Zambia in 25 years, also expects to hear the results of its bids for the privatised assets of Zambia Consolidated Copper Mineshas on April 1, Mr Newall said in London.

The tailings project, at the site of an abandoned mine in Zambia's copper belt, is now expected to begin production late this year, Mr Newall said. The Bwana Mkubwa project includes 8.4m tonnes of tailings with 0.73 per cent copper, giving a cash cost of 33 cents a lb ($728 a tonne). Mr Newall said. *Reuter, London*

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1612-13	1647-48
Previous	1637.5-38.5	1673-73
High/low		1666/1636
AM Official	1609-10	1643-43.5
Kerb close		1640-41
Open int.	274,118	
Total daily turnover	85,289	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1505-15	1535-40
Previous	1525-35	1555-58
High/low	1520/1507	1545/1532
AM Official	1500-10	1532-34
Kerb close		1530-35
Open int.	6,371	
Total daily turnover	2,823	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	708-9	701-2
Previous	708-9	704-5
High/low		709/696
AM Official	704-705	695-96
Kerb close		707-08
Open int.	40,462	
Total daily turnover	9,468	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7820-30	7930-40
Previous	7810-20	8030-35
High/low		8050/7855
AM Official	7774-78	7871-75
Kerb close		7900-8005
Open int.	49,926	
Total daily turnover	22,324	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6000-10	5990-6000
Previous	6035-45	6080-65
High/low		6055/5980
AM Official	5965-70	5980-85
Kerb close		6020-30
Open int.	17,502	
Total daily turnover	5,051	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1269-70	1292-93
Previous	1275.5-76.5	1296-97
High/low		1300/1286
AM Official	1264.5-65.5	1288-89.5
Kerb close		1289-90
Open int.	87,911	
Total daily turnover	36,773	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2385-87	2342-43
Previous	2400-02	2353-54
High/low		2349/2332
AM Official	2373-74	2335-35.5
Kerb close		2335-37
Open int.	141,234	
Total daily turnover	59,723	

■ LME AM Official £/$ rate: 1.5873
LME Closing £/$ rate: 1.5889

Spot: 1.5895 3 mths: 1.5871 6 mths: 1.5847 9 mths: 1.5825

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	112.50	-0.10	112.60	111.70	858	6,111
Apr	109.75	-1.00	110.90	109.60	414	3,955
May	108.75	-0.90	110.10	108.70	5,738	24,617
Jun	107.15	+0.90	107.90	107.30	75	1,017
Jul	105.85	+0.70	107.20	105.70	278	7,957
Aug	104.55	-0.60	-	-	32	674
Total					8,075	58,039

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	347.80-348.30		
Opening	347.50-347.00		
Morning fix	347.40	218.422	505.015
Afternoon fix	346.30	218.187	499.538
Day's High	348.00-348.40		
Day's Low	345.60-346.00		
Previous close	349.10-349.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.40	6 months	4.31
2 months	4.35	12 months	4.22
3 months	4.34		

Silver Fix	p/troy oz.	US cts equiv.
Spot	328.25	521.00
3 months	332.65	527.50
6 months	337.60	534.20
1 year	346.80	547.40

Gold Coins	$ price	£ equiv.
Krugerrand	347-349	218-220
Maple Leaf	-	-
New Sovereign	81-84	51-53

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	348.9	+2.0	352.0	352.0	29,421	-
Apr	350.4	+2.1	351.1	346.3	37,936	54,350
Jun	352.8	+1.9	353.5	346.8	8,542	33,952
Aug	355.3	+1.9	354.5	351.4	940	10,279
Oct	357.8	+1.9	354.3	354.3	296	5,869
Dec	360.5	+1.9	358.6	356.5	119	21,531
Total					47,679	167,162

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	378.2	-3.4	380.8	373.0	1,360	15,972
Jul	380.2	-3.4	381.4	375.5	105	3,871
Oct	382.5	-3.4	385.0	378.5	33	2,125
Jan	384.7	-3.4	382.5	382.0	14	1,137
Total					[illegible]	[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	144.00	-4.55	143.00	142.00	102	33
Jun	145.50	-5.95	150.55	144.55	483	9,904
Sep	146.75	-4.80	151.00	145.55	7	713
Dec	147.75	-4.80	-	-	1	189
Total					[illegible]	[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	517.3	-3.4	521.0	510.5	174	581
May	520.3	-3.5	524.5	511.5	11,496	61,240
Jul	523.3	-3.5	528.0	517.0	689	13,138
Sep	530.2	-3.5	531.0	523.5	34	3,331
Dec	537.8	-3.5	540.0	528.0	79	5,150
Jan	540.6	-3.6	550.0	553.0	2	13
Total					12,425	92,298

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	21.42	+0.50	21.57	20.84	26,081	44,268
May	21.35	+0.50	21.46	20.79	27,454	85,104
Jun	21.23	+0.44	21.30	20.72	8,215	53,446
Jul	21.07	+0.39	21.15	20.65	3,308	26,052
Aug	21.05	+0.47	21.05	20.53	1,765	17,977
Sep	20.76	+0.25	20.76	20.50	644	13,498
Total					69,613	416,204

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	19.58	+0.48	19.58	19.23	16,039	78,766
Jun	19.83	+0.44	19.85	19.31	4,289	25,323
Jul	19.72	+0.38	19.72	19.27	839	12,781
Aug	19.60	+0.34	19.60	19.23	388	0,859
Sep	19.49	+0.26	19.49	19.19	125	6,441
Oct	19.48	+0.27	19.48	19.30	140	4,697
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	56.40	+1.10	56.60	54.20	11,946	30,558
May	55.50	+1.04	55.65	54.30	4,782	24,154
Jun	55.75	+0.96	55.75	54.85	1,915	13,579
Jul	56.10	+0.94	56.10	55.01	480	12,748
Aug	56.80	+0.89	56.80	56.00	465	7,956
Sep	57.40	+0.89	57.40	57.40	145	5,186
Total					20,584	128,108

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	172.00	+1.25	172.50	169.75	4,667	21,779
May	173.25	+1.25	173.50	170.75	1,963	7,360
Jun	174.00	+1.50	174.00	171.75	710	10,407
Jul	175.25	+2.00	175.00	173.00	165	4,339
Aug	176.25	+1.50	176.00	174.25	175	1,844
Sep	177.75	-	176.25	176.00	65	1,359
Total					7,390	64,281

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	1.885	-0.024	1.910	1.870	18,584	27,724
May	1.915	-0.033	1.945	1.910	6,206	29,365
Jun	1.950	-0.030	1.980	1.940	2,903	13,401
Jul	1.985	-0.020	1.985	1.960	1,064	11,372
Aug	1.975	-0.025	1.995	1.970	1,212	9,408
Sep	1.975	-0.020	1.995	1.965	1,179	8,120
Total					36,858	181,387

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	66.25	+0.99	66.80	65.10	10,945	26,414
May	66.25	+0.89	66.40	64.71	5,363	30,700
Jun	65.25	+0.89	65.40	64.10	1,451	17,391
Jul	64.40	+1.07	64.60	63.20	517	7,569
Aug	62.80	+0.82	62.65	62.10	448	4,687
Sep	60.80	-0.22	60.80	60.40	125	2,421
Total					19,065	92,464

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	100.15	+0.75	100.00	100.00	13	192
May	102.00	+0.90	102.00	100.85	400	3,183
Jul	104.25	+0.75	104.45	103.20	276	1,206
Sep	95.25	+1.00	-	-	-	33
Nov	97.35	+1.10	97.35	96.00	94	2,129
Jan	99.25	+1.00	99.00	98.50	45	457
Total					876	7,394

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	377.00	+0.75	378.50	374.00	121	172
May	383.75	+2.75	385.00	379.00	4,846	27,265
Jul	375.50	+3.25	376.50	370.00	10,054	41,116
Sep	376.50	+4.25	377.00	368.75	762	4,257
Dec	385.00	+2	385.00	379.50	171	4,411
Mar	381.00	-1	381.00	381.00	16	82
Total					15,988	77,759

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	306.00	-4.25	309.00	305.00	7,456	4,806
May	301.00	-5.75	306.00	300.00	45,727	158,562
Jul	299.50	-5.5	304.75	299.00	21,997	109,205
Sep	290.00	-4.25	292.75	289.75	1,528	16,501
Dec	288.50	-3.5	291.50	287.50	12,278	77,363
Mar	292.75	-3	294.25	291.50	1,006	7,305
Total					90,095	378,687

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	93.00	+1.75	92.50	92.00	10	20
May	93.50	+1.25	93.00	93.00	3	145
Sep	92.75	+1.00	-	-	-	28
Nov	94.75	+1.00	94.50	94.25	20	433
Jan	96.75	+1.00	96.00	95.75	10	38
Total					33	664

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	827.50	+6.5	828.00	810.00	2,314	1,070
May	831.00	+6	834.00	814.00	49,125	82,896
Jul	833.25	+5.75	835.00	817.00	17,768	59,014
Aug	823.00	+5	824.50	808.50	1,474	8,234
Sep	782.75	+2.25	786.00	755.50	852	4,683
Nov	711.25	+0.75	715.50	706.00	1,474	8,234
Total					81,069	190,818

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	24.35	+0.15	24.35	23.95	1,419	1,617
May	24.63	+0.16	24.65	24.26	20,450	50,670
Jul	25.02	+0.22	25.04	24.63	6,970	29,790
Aug	25.12	+0.19	25.20	24.81	1,108	5,769
Sep	25.27	+0.24	25.20	24.95	253	3,395
Oct	25.37	+0.12	25.35	25.05	65	3,175
Total					31,871	106,495

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	272.9	+1.3	273.2	266.0	1,605	1,671
May	269.5	+1.6	270.0	263.0	14,847	48,203
Jul	266.2	+1.1	267.0	260.0	7,402	29,526
Aug	259.5	+0.2	260.0	253.5	1,642	8,537
Sep	245.4	+0.5	245.5	240.5	602	5,865
Oct	224.8	-0.2	225.3	223.0	137	4,254
Total					26,312	108,266

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	57.1	+1.1	58.0	56.2	60	731
May	63.1	+1.1	-	-	-	313
Jun	71.1	+1.1	-	-	-	-
Nov	62.0	+2.0	-	-	-	2
Mar	96.0	+1.0	-	-	-	-
Apr	107.0	+1.0	-	106.0	-	691
Total					60	1,737

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1518	-7	1520	1518	15	458
Apr	1615	-20	1630	1602	39	1,108
May	1580	-25	1605	1573	35	560
Jul	1330	-24	1354	1325	39	704
Oct	1440	-14	1440	1440	15	256
Jan	1455	-	1450	1450	2	47
Total					148	3,133

	Close	Prev
BFI	1490	1481

FUTURES DATA
All futures data supplied by CMS.

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	100.15	+0.75	100.00	100.00	13	192
May	102.00	+0.90	102.00	100.85	400	3,183
Jul	104.25	+0.75	104.45	103.20	276	1,206
Sep	95.25	+1.00	-	-	-	33
Nov	97.35	+1.10	97.35	96.00	94	2,129
Jan	99.25	+1.00	99.00	98.50	45	457
Total					876	7,394

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	377.00	+0.75	378.50	374.00	121	172
May	383.75	+2.75	385.00	379.00	4,846	27,265
Jul	375.50	+3.25	376.50	370.00	10,054	41,116
Sep	376.50	+4.25	377.00	368.75	762	4,257
Dec	385.00	+2	385.00	379.50	171	4,411
Mar	381.00	-1	381.00	381.00	16	82
Total					15,988	77,759

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	306.00	-4.25	309.00	305.00	7,456	4,806
May	301.00	-5.75	306.00	300.00	45,727	158,562
Jul	299.50	-5.5	304.75	299.00	21,997	109,205
Sep	290.00	-4.25	292.75	289.75	1,528	16,501
Dec	288.50	-3.5	291.50	287.50	12,278	77,363
Mar	292.75	-3	294.25	291.50	1,006	7,305
Total					90,095	378,687

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	93.00	+1.75	92.50	92.00	10	20
May	93.50	+1.25	93.00	93.00	3	145
Sep	92.75	+1.00	-	-	-	20
Nov	94.75	+1.00	94.50	94.25	20	433
Jan	96.75	+1.00	96.00	95.75	10	38
Total					33	664

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	827.50	+6.5	828.00	810.00	2,314	1,070
May	831.00	+6	834.00	814.00	49,125	82,896
Jul	833.25	+5.75	835.00	817.00	17,768	59,014
Aug	823.00	+5	824.50	808.50	1,474	8,234
Sep	782.75	+2.25	786.00	755.50	852	4,683
Nov	711.25	+0.75	715.50	706.00	1,474	8,234
Total					81,069	190,816

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	24.35	+0.15	24.35	23.95	1,419	1,617
May	24.63	+0.16	24.65	24.26	20,450	50,670
Jul	25.02	+0.22	25.04	24.63	6,970	29,780
Aug	25.12	+0.19	25.20	24.81	1,108	5,769
Sep	25.27	+0.24	25.20	24.95	253	3,395
Oct	25.37	+0.12	25.35	25.05	65	3,175
Total					31,871	106,495

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	272.9	+1.3	273.2	266.0	1,605	1,671
May	269.5	+1.6	270.0	263.0	14,847	48,203
Jul	266.2	+1.1	267.0	260.0	7,402	29,526
Aug	259.5	+0.2	260.0	253.5	1,642	8,537
Sep	245.4	+0.5	245.5	240.5	602	5,865
Oct	224.8	-0.2	225.3	223.0	137	4,254
Total					26,312	108,266

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	57.1	+1.1	58.0	56.2	60	731
May	63.1	+1.1	-	-	-	313
Jun	71.1	+1.1	-	-	-	-
Nov	62.0	+2.0	-	-	-	2
Mar	96.0	+1.0	-	-	-	-
Apr	107.0	+1.0	-	106.0	-	691
Total					60	1,737

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1518	-7	1520	1518	15	458
Apr	1615	-20	1630	1602	39	1,108
May	1580	-25	1605	1573	35	560
Jul	1330	-24	1354	1325	39	704
Oct	1440	-14	1440	1440	15	256
Jan	1455	-	1450	1450	2	47
Total					148	3,133

	Close	Prev
BFI	1490	1481

Minor metals
European free market, from Metal Bulletin. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony**: 99.65%, $ per tonne, 2,100-2,225 (2,100-2,250). **Bismuth**: min. 99.99%, tonne lots 2.90-3.15. **Cadmium**: min. 99.95%, cents a pound, 60.00-70.00. **Cobalt**: MB free market, min. 99.8%, 19.00-20.00 (18.50-20.00); min. 99.3%, 18.00-18.75 (17.75-13.25). **Mercury**: min. 99.99%, $ per 76 lb flask, 161-171. **Molybdenum**: drummed molybdic oxide, 4.30-4.50 (4.40-4.55). **Selenium**: min 99.5%, 2.40-3.20. **Tungsten ore**: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 45-55. **Vanadium**: min 98%, cif, 3.90-4.08. **Uranium**: Nuexco unrestricted exchange value, 12.25 (12.50).

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 18	Mar 17	month ago	year ago
1997.1	1992.5	1973.6	2136.3

■ CRB Futures (Base: 1967 = 100)

Mar 17	Mar 14	month ago	year ago
246.93	245.06		

■ GSCI Spot (Base: 1970 = 100)

Mar 17	Mar 14	month ago	year ago
195.39	192.86	192.79	197.12

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Apr	68.400	-0.675	69.325	68.350	4,978	36,747
Jun	64.550	-0.200	64.875	64.500	2,626	28,070
Aug	63.375	-0.050	63.650	63.350	1,408	21,349
Oct	67.100	-	67.100	67.000	462	15,196
Dec	69.325	+0.225	69.625	68.975	273	7,289
Feb	70.450	+0.150	70.600	70.100	46	2,702
Total					9,820	109,962

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Apr	69.150	-1.225	70.350	69.100	2,402	10,802
Jun	76.550	-0.775	77.550	76.500	2,847	12,251
Jul	75.275	-0.850	76.325	75.200	993	2,868
Aug	71.400	-0.725	72.300	71.400	742	2,139
Oct	65.875	-0.300	66.150	65.700	67	1,455
Dec	63.950	-0.400	64.150	63.800	106	910
Total					7,171	31,001

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Mar	75.250	-0.975	77.000	75.000	20	128
May	75.275	-1.950	77.600	75.225	1,671	4,900
Jul	75.000	-1.950	77.250	74.800	425	1,671
Aug	72.525	-0.825	74.700	72.525	21	541
Feb	71.100	-0.200	71.500	71.500	14	37
Total					2,149	7,278

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1600	30	81	21	47
1650	10	58	51	71
1700	3	38	93	101
■ COPPER (Grade A) LME	**Apr**	**Jul**	**Apr**	**Jul**
2250	134	120	4	78
2350	57	74	27	130
2450	15	43	85	197
■ COFFEE LIFFE	**May**	**Jul**	**May**	**Jul**
1650	114	176	66	141
1700	88	152	90	167
1750	67	135	119	200
■ COCOA LIFFE	**May**	**Jul**	**May**	**Jul**
975	66	166	8	23
1000	47	146	14	32
1025	34	125	26	43
■ BRENT CRUDE IPE	**May**	**Jun**	**May**	**Jun**
1900	-	-	22	51
1950	80	77	-	-
2000	53	-	-	106

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$18.64-8.67w	+0.555
Brent Blend (dated)	$19.50-9.60	+0.535
Brent Blend (May)	$20.20-0.24	+0.540
W.T.I.	$21.63-1.65w	+0.630

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$214-216	
Gas Oil	$174-175	+1.5
Heavy Fuel Oil	$83-85	+1.5
Naphtha	$198-202	
Jet fuel	$195-197	+2
Diesel	$184-186	+2

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.65-9.70	-0.125

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Apr)	9.700	

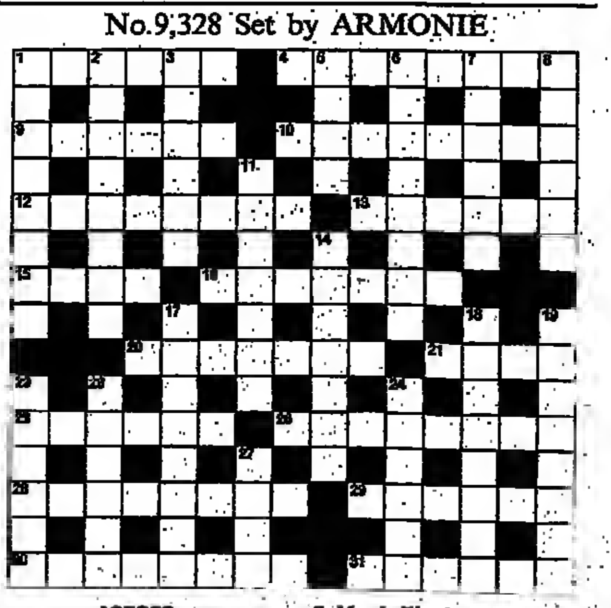
■ OTHER

Gold (per troy oz)♣	$347.95	-1.40
Silver (per troy oz)♣	514.00c	-9.00
Platinum (per troy oz.)	$375.75	-3.25
Palladium (per troy oz.)	$142.50	-9.50
Copper	118.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.54r	+0.02
Tin (New York)	282.50	
Cattle (live weight)	100.15p	+1.69*
Sheep (live weight)	151.98p	+2.58*
Pigs (live weight)†	84.15p	+0.77*
Lon. day sugar (raw)	$272.80	
Lon. day sugar (wte)	$309.50	-1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Apr)♥	81.25p	+1.50
Rubber (May)♥	81.25p	+1.50
Rubber (KL RSS No1)	306.0x	-0.5
Coconut Oil (Phil)§	735.0y	-5.0
Palm Oil (Malay.)§	557.5	-7.5
Copra (Phil)§	$490.0y	
Soyabeans (US)	234.0	+1.0
Cotton Outlook'A' Index	80.55	-0.36
Wooltops (64s Super)	429p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w May y Apr/May ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,368 head of pigs sold.

CROSSWORD

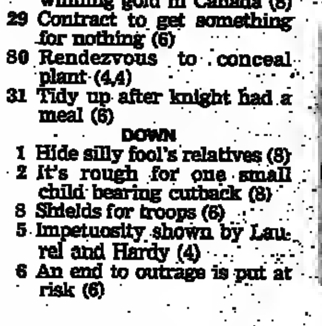
No.9,328 Set by ARMONIE



ACROSS
1 Try to smile before an English-speaker abroad (6)
4 Expedition requires it in the vegetable (8)
9 Dismay about bridge player's charm (6)
10 Point accepted by new radical churchman (8)
12 Dressing a boy covered in muck (5,3)
13 Before work most of the country is blue (6)
15 Part of the patio taken for scrap (4)
18 Butcher in company showing kitchen utensil (7)
20 Said to be Polish nationality (7)
21 Comfortable boot that is missing (4)
25 A commander's about to examine a bird (6)
26 Concerned about alternative plot (8)
28 Boy embraces supporter winning gold in Canada (8)
29 Contract to get something for nothing (6)
30 Rendezvous to conceal plant (4,4)
31 Tidy up after knight had a meal (6)

DOWN
1 Hide silly fool's relatives (8)
2 It's rough for one small child bearing cutback (8)
3 Shields for troops (6)
5 Impetuosity shown by Laurel and Hardy (4)
6 An end to outrage is put at risk (8)
7 Much-liked enthusiast adopting Italy's language (6)
8 Cowardly students love hiding in tree (6)
11 Kingpin broken giving audible warning to driver (7)
14 Ugly crowd, uprising about deprivation, is to flourish (7)
17 Hydrocarbon mixture stimulated a politician (8)
18 Once more check back support (8)
19 Prepare glue, bond and stick (8)
22 Each person joined in awful song (6)
23 Search carefully at the fight (6)
24 Polish round king's tomb (6)
27 Device for mounting rifle (4)

Solution 9,327



CURRENCIES AND MONEY

D-Mark strengthens on Emu fears

MARKETS REPORT

By Emiko Terazono

Renewed fears of a delay to European monetary union led to further strengthening of the D-Mark yesterday. Its rise was triggered by reports that Germany's budget deficit would fail to meet the Emu convergence criteria.

The dollar fell 1.3 pfennigs to close in London at DM1.678, just above its three week low of DM1.673. It suffered on reports that Mr Klaus-Dieter Kuehbacher, a Bundesbank council member, had expressed doubts that Germany would manage to keep its budget deficit within the criteria set down by the Maastricht treaty and that a delay to Emu was the only option. Prospects of an economic recovery in Germany also led to a sharp sell off in bunds, steepening the yield curve, which in turn exacerbated the dollar's decline against the German currency. The steepening of the German yield curve "neutralised the effects of the expected US interest rate hike," said Mr Klaus Baader, senior currency strategist at Deutsche Morgan Grenfell. He added that the dollar would find it difficult to recover against the D-Mark under such conditions.

The Federal Reserve is expected to raise US interest rates after its Open Market committee meeting next week, but analysts say the market seems to have factored in the possible move.

Sterling, which plunged on UK election jitters on Monday, stayed weak. The pound fell 1.6 pfennigs against the D-Mark to DM2.667 but recovered slightly against the dollar, closing at $1.589.

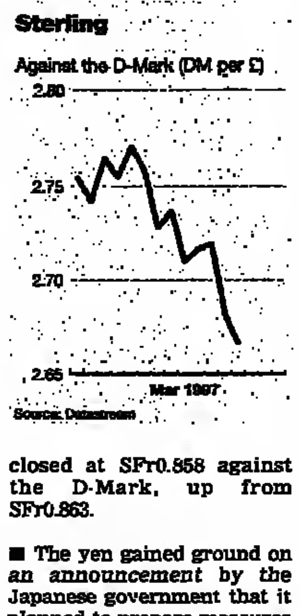
■ Pound in New York

Mar 18	—Latest—	—Prev. close—
£ spot	1.5895	1.5895
1 mth	1.5887	1.5887
3 mth	1.5870	1.5871
1 yr	1.5805	1.5804

A poll showing that the Labour party extended its lead against the ruling Conservatives unnerved investors, but strategists doubt that a Labour win would seriously damage sterling.

Emu jitters hit the lira against the D-Mark. It closed down L3 at L1,005 although reports of intervention by the Bank of Italy helped the currency to rise above a four-month low of L1,007.25 in earlier trading. The Bank of Spain was seen buying pesetas while the Swedish krona, which plunged last week, fell again. It closed at SKr4.559 after hitting a 12-month low of 4.602.

■ Uncertainty over Emu helped the Swiss franc, which is seen as a safe haven from the process. Some analysts also said the currency may be benefiting from investors seeking to get out of US assets due to concerns over a possible Fed rate rise. The Swiss franc closed at SFr0.858 against the D-Mark, up from SFr0.863.



■ The yen gained ground on an announcement by the Japanese government that it planned to prepare measures to bolster the country's ailing property market. The dollar closed at Y122.6, down Y1.1 against the yen, after Mr Hiroshi Mitsuzuka, finance minister, said that measures to improve liquidity on the virtually stagnant real estate market would be drawn up by the end of the month. This would help Japanese banks struggling with mounting bad loans.

Analysts said that the move was good news for the battered banking sector and would allow the Japanese government to focus on rebuilding confidence in the domestic economy. But they believe that the main factor helping the yen in the near term will be the US-Japan trade surplus.

The yen's long slide against the dollar is leading to an increase in Japan's exports to the US, and could create pressure from Washington for a higher yen. "The markets are very very sensitive to prospects of concerted intervention by Japan and the US," said Mr Don Smith, international economist at HSBC Midland.

■ OTHER CURRENCIES

Mar 18	£	$
Czech Rp	45.8534 - 45.9403	28.8640 - 28.9040
Hungary	276.958 - 278.178	175.600 - 175.820
Iran	4768.20 - 4785.80	3000.00 - 3002.00
Kuwait	0.4825 - 0.4829	0.3037 - 0.3038
Poland	4.8706 - 4.8763	3.0660 - 3.0680
Russia	9068.14 - 9073.88	5707.00 - 5709.00
U.A.E.	5.8302 - 5.8385	3.6700 - 3.6740

■ Only a month ago many in the market thought that Germany would cut interest rates soon. Europe's economies looked to be sagging and in need of monetary loosening. Last week, reports say the International Monetary Fund urged the Germans to cut.

How things have changed. A Reuter poll yesterday showed that none of the 10 economists interviewed forecast a German rate cut either after tomorrow's Bundesbank council meeting or at any point this year. With Germany's economy finally appearing to grow visibly, the real question now seems to be when the country will raise rates.

POUND SPOT FORWARD AGAINST THE POUND

Mar 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.7688	-0.1118	610 - 765	18.8828	18.7404	18.7251	2.8	18.6686	2.1	-	-	104.1
Belgium	(BFr)	55.0104	-0.318	810 - 398	55.5290	54.8570	54.8954	2.7	54.6254	2.8	53.3004	3.1	104.2
Denmark	(DKr)	10.1670	-0.0562	828 - 911	10.2913	10.1717	10.165	2.8	10.1215	2.6	9.9115	2.7	106.6
Finland	(FM)	8.0604	-0.0101	426 - 581	8.1030	8.0380	-	-	-	-	-	-	83.2
France	(FFr)	8.9997	-0.0403	962 - 032	9.0990	8.9837	8.9776	3.0	8.9339	2.8	8.7188	3.1	107.1
Germany	(DM)	2.6667	-0.0159	657 - 676	2.6960	2.6613	2.6601	3.0	2.6465	3.0	2.5798	3.3	106.0
Greece	(Dr)	420.950	-2.457	787 - 143	425.510	420.259	-	-	-	-	-	-	71.4
Ireland	(I£)	1.0178	-0.0018	170 - 185	1.0248	1.0157	1.0175	0.4	1.0168	0.5	1.01	0.8	102.3
Italy	(L)	2681.12	-8.65	965 - 259	2689.97	2678.01	2694.52	-1.5	2689.37	-1.2	2682.17	-0.4	75.5
Luxembourg	(LFr)	55.0104	-0.318	810 - 398	55.5290	54.8570	54.8954	2.7	54.6254	2.8	53.3004	3.1	104.2
Netherlands	(Fl)	3.0021	-0.0167	000 - 033	3.0342	2.9967	2.994	3.2	2.9782	3.2	2.9027	3.3	103.9
Norway	(NKr)	10.8340	-0.0377	296 - 383	10.9410	10.7948	10.8095	2.7	10.781	2.7	10.5565	2.6	102.0
Portugal	(Es)	268.525	-1.482	378 - 672	271.181	268.071	268.685	-0.8	268.95	-0.8	-	-	95.0
Spain	(Pta)	226.512	-1.401	391 - 633	228.800	226.200	226.648	-0.7	226.512	0.0	225.037	0.7	78.2
Sweden	(SKr)	12.2527	-0.0313	440 - 614	12.3249	12.2273	12.2337	1.9	12.1942	1.9	11.9892	2.1	83.2
Switzerland	(SFr)	2.2882	-0.0255	861 - 903	2.3250	2.2832	2.2804	4.0	2.2625	4.7	2.1784	4.8	114.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	95.5
Ecu	-	1.3791	-0.0062	784 - 797	1.3914	1.3769	1.3769	1.9	1.3722	2.0	1.3471	2.3	-
SDR†	-	1.15664	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5887	+0.0017	883 - 891	1.5918	1.5855	-	-	-	-	-	-	-
Brazil	(R$)	1.6855	+0.0042	847 - 862	1.6870	1.6780	-	-	-	-	-	-	-
Canada	(C$)	2.1813	+0.0065	804 - 822	2.1835	2.1740	2.1754	3.2	2.1647	3.0	2.1201	2.8	85.3
Mexico	(New Peso)	12.6302	-0.0575	230 - 373	12.6651	12.6158	-	-	-	-	-	-	-
USA	($)	1.5890	+0.0017	886 - 894	1.5922	1.5858	1.5882	0.6	1.5865	0.6	1.5802	0.6	104.0
Pacific/Middle East/Africa													
Australia	(A$)	2.0206	+0.0209	181 - 221	2.0222	2.0057	2.0205	0.1	2.0197	0.2	2.0156	0.2	98.4
Hong Kong	(HK$)	12.3106	+0.0177	069 - 147	12.3345	12.2862	12.3082	0.5	12.2952	0.5	12.2551	0.5	-
India	(Rs)	56.9895	+0.0469	354 - 436	57.1310	56.8290	-	-	-	-	-	-	-
Israel	(Shk)	5.3421	+0.0025	359 - 482	5.3571	5.3374	-	-	-	-	-	-	-
Japan	(Y)	194.827	-1.492	715 - 940	196.830	194.410	193.857	6.0	191.997	5.8	183.387	5.9	123.3
Malaysia	(M$)	3.9280	-0.0047	262 - 298	3.9420	3.9217	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2918	+0.0065	904 - 932	2.2955	2.2852	2.2947	-1.5	2.2998	-1.4	2.32	-1.2	115.1
Philippines	(Peso)	41.8480	+0.0392	861 - 998	41.9049	41.7908	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9594	+0.0065	577 - 610	5.9712	5.9477	-	-	-	-	-	-	-
Singapore	(S$)	2.2855	+0.0086	841 - 868	2.2883	2.2773	-	-	-	-	-	-	-
South Africa	(R)	7.0115	-0.0216	057 - 172	7.0377	7.0003	-	-	-	-	-	-	-
South Korea	(Won)	1403.09	+6.31	956 - 862	1406.67	1399.03	-	-	-	-	-	-	-
Taiwan	(T$)	43.7293	+0.0481	865 - 721	43.8294	43.6476	-	-	-	-	-	-	-
Thailand	(Bt)	41.1069	-0.0023	806 - 131	41.3270	41.1290	-	-	-	-	-	-	-

† Rates for Mar 17. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.8118	-0.0833	098 - 138	11.9120	11.8000	11.7989	1.5	11.7516	2.0	11.5565	2.2	103.8
Belgium	(BFr)	34.6105	-0.2385	160 - 230	34.9230	34.5450	34.5665	2.1	34.432	2.2	33.892	2.1	104.0
Denmark	(DKr)	6.4108	-0.0425	093 - 119	6.4683	6.4013	6.402	1.7	6.3836	1.7	6.3019	1.7	105.8
Finland	(FM)	5.0683	-0.012	677 - 689	5.0814	5.0575	5.0575	2.1	5.0388	2.2	4.9583	2.2	52.8
France	(FFr)	5.6639	-0.0372	630 - 645	5.7118	5.6530	5.6531	2.3	5.6321	2.2	5.5238	2.5	106.6
Germany	(DM)	1.6782	-0.0116	780 - 784	1.6950	1.6750	1.675	2.3	1.6684	2.3	1.6348	2.6	105.4
Greece	(Dr)	264.815	-1.84	690 - 970	267.640	264.460	266.47	-7.0	269.04	-6.4	280.065	-5.7	66.2
Ireland	(I£)	1.5613	+0.0043	605 - 621	1.5640	1.5520	1.5606	0.5	1.5603	0.3	1.5616	0.0	-
Italy	(L)	1687.30	-6.05	680 - 780	1699.05	1684.20	1690.3	-2.1	1695.15	-1.9	1704.95	-1.0	75.5
Luxembourg	(LFr)	34.6105	-0.2385	160 - 230	34.9230	34.5450	34.5665	2.1	34.432	2.2	33.892	2.1	104.0
Netherlands	(Fl)	1.8893	-0.0126	689 - 896	1.9101	1.8883	1.8855	2.4	1.8775	2.5	1.8418	2.5	103.4
Norway	(NKr)	6.8181	-0.0313	171 - 191	6.8685	6.7990	6.8144	0.7	6.8097	0.6	6.7831	0.6	101.4
Portugal	(Es)	168.950	-1.12	940 - 040	170.670	168.800	169.12	-0.9	169.27	-0.7	169.005	0.0	95.3
Spain	(Pta)	142.550	-1.04	510 - 590	143.780	142.400	142.641	-0.8	142.78	-0.6	142.655	0.0	77.9
Sweden	(SKr)	7.7110	-0.0282	074 - 145	7.7535	7.6940	7.7082	0.4	7.6984	0.7	7.551	0.9	83.0
Switzerland	(SFr)	1.4407	-0.0176	403 - 410	1.4632	1.4365	1.438	4.0	1.4265	3.9	1.381	4.1	103.0
UK	(£)	1.5890	+0.0017	886 - 894	1.5922	1.5858	1.5882	0.6	1.5865	0.6	1.5802	0.6	96.0
Ecu	-	1.1523	+0.0085	520 - 525	1.1542	1.1442	1.1535	-1.2	1.156	-1.3	1.1713	-1.6	-
SDR†	-	0.726200	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0607	+0.0015	605 - 609	1.0610	1.0575	-	-	-	-	-	-	-
Canada	(C$)	1.3728	+0.0026	725 - 730	1.3733	1.3700	1.37	2.5	1.3647	2.4	1.3433	2.1	85.4
Mexico	(New Peso)	7.9485	-0.045	460 - 510	7.9520	7.9440	8.0065	-17.9	8.333	-19.3	9.1935	-15.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.1
Pacific/Middle East/Africa													
Australia	(A$)	1.2716	+0.0118	710 - 723	1.2730	1.2648	1.2723	-0.7	1.2731	-0.5	1.2784	-0.5	101.6
Hong Kong	(HK$)	7.7475	+0.0026	470 - 480	7.7480	7.7450	7.7474	0.0	7.7479	0.0	7.759	-0.1	-
India	(Rs)	35.8650	-0.01	400 - 900	35.9000	35.8320	35.98	-7.2	36.54	-7.5	-	-	-
Israel	(Shk)	3.3619	-0.0053	569 - 649	3.3699	3.3587	-	-	-	-	-	-	-
Japan	(Y)	122.610	-1.075	570 - 650	123.950	122.280	122.075	5.2	121.05	5.1	115.25	5.2	123.4
Malaysia	(M$)	2.4720	-0.0057	715 - 725	2.4773	2.4713	2.4748	-1.4	2.4802	-1.3	2.5015	-1.2	-
New Zealand	(NZ$)	1.4423	+0.0019	418 - 428	1.4430	1.4410	1.4446	-1.9	1.4489	-1.8	1.4666	-1.9	-
Philippines	(Peso)	26.3350	-0.005	100 - 600	26.3620	26.3100	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	503 - 505	3.7506	3.7502	3.7506	-0.1	3.7511	-0.1	3.753	-0.1	-
Singapore	(S$)	1.4383	+0.0038	378 - 388	1.4390	1.4349	1.4361	1.8	1.4315	1.9	1.4103	1.9	-
South Africa	(R)	4.4125	-0.0185	100 - 150	4.4255	4.4100	4.4532	-11.1	4.5282	-10.5	4.843	-9.8	-
South Korea	(Won)	883.000	+3	000 - 000	885.200	880.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.5200	-	000 - 400	27.5410	27.5000	27.5201	0.0	27.5203	0.0	-	-	-
Thailand	(Bt)	25.9200	-0.03	100 - 300	25.9880	25.9050	26.01	-4.2	26.1775	-4.0	26.815	-3.5	-

† SDR rate per $ for Mar 17. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 17: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

March 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅛	3⅛	3⅛	3⅛	3⅛	6.00	2.50	-
France	3⅛	3⅛	3⅛	3⅛	3⅛	3.10	-	4.75
Germany	3⅛	3⅛	3⅛	3⅛	3⅛	4.50	2.50	3.00
Ireland	5⅞	5⅞	5⅞	5⅞	5⅞	-	-	6.25
Italy	7⅝	7½	7⅛	7⅛	7⅛	8.25	6.75	7.45
Netherlands	3⅛	3⅛	3⅛	3⅛	3⅛	-	3.00	3.30
Switzerland	1⅛	1⅛	1⅛	1⅛	1⅛	-	1.00	-
US	5⅝	5⅛	5⅝	5¾	6	-	5.00	-
Japan	½	½	½	½	½	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5½	5⅝	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.18	5.25	5.35	5.61	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3⅛	3⅝	3⅛	3⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 18	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3⅛	3⅛ - 3½	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
Danish Krone	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3¾ - 3⅛	3⅛ - 3⅛	4⅛ - 3⅛
German Mark	3⅛ - 3⅛	3¼ - 3	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
Dutch Guilder	2⅛ - 2¾	3⅛ - 3⅛	3⅛ - 3⅛	3¼ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
French Franc	3¼ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅝ - 3½
Portuguese Esc.	6¼ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6
Spanish Peseta	5⅛ - 5⅛	5⅛ - 5¾	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛
Sterling	6 - 5⅞	6 - 5⅛	6⅛ - 6	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛
Swiss Franc	1⅞ - 1½	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛
Canadian Dollar	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3¼ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
US Dollar	5⅛ - 5⅛	5⅛ - 5¼	5½ - 5⅜	5⅝ - 5⅛	5⅛ - 5⅛	6⅛ - 6
Italian Lira	7½ - 7⅜	7½ - 7⅜	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛
Japanese Yen	½ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛
Asian $Sing	3¼ - 3⅛	3⅜ - 3¼	3⅜ - 3¼	4¼ - 3¼	4⅛ - 3⅝	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.51	96.50	-0.02	96.52	96.46	29,554	71,859
Sep	96.38	96.38	-0.04	96.41	96.37	20,033	44,130
Dec	96.28	96.28	-0.03	96.30	96.28	616	30,905

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.65	96.67	-	96.69	96.65	41574	214667
Sep	96.50	96.56	+0.01	96.56	96.50	56060	182249
Dec	96.33	96.36	-0.01	96.38	96.33	50618	187313
Mar	96.15	96.16	-0.02	96.19	96.14	31216	140385

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Apr	96.72	96.73	-0.03	96.73	96.72	151	4982
May		96.73	-0.03			0	4197
Jun		96.73	-0.03			0	535
Jul		96.72	-0.03			0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.80	92.72	-0.10	92.96	92.65	40139	117623
Sep	93.00	92.91	-0.12	93.07	92.83	23577	52138
Dec	93.07	93.00	-0.10	93.15	92.93	13266	35069
Mar	93.13	93.00	-0.10	93.14	92.95	3420	22934

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.14	98.18	+0.01	98.17	98.11	12283	41727
Sep	98.08	98.13	+0.02	98.13	98.06	4142	20764
Dec	97.98	98.02	-	98.02	97.97	2809	14348
Mar	97.84	97.88	-0.01	97.84	97.84	2	6487

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.37	99.37	-0.03	99.37	99.37	3000	na
Sep	99.26	99.25	-0.06	99.26	99.24	5004	na
Dec	99.11	99.11	-0.08	99.11	99.11	2100	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.66	95.64	-0.04	95.68	95.64	3040	10129
Sep	95.63	95.58	-0.05	95.63	95.58	855	5353
Dec	95.53	95.49	-0.04	95.53	95.46	794	4678
Mar	95.39	95.35	-0.06	95.40	95.34	360	3568

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9250	0.46	0.72	0.83	0.24	0.31	0.33
9275	0.30	0.58	0.67	0.33	0.42	0.42
9300	0.18	0.43	0.53	0.46	0.52	0.53

Est. vol. total, Calls 6912 Puts 1370. Previous day's open int., Calls 119779 Puts 52396

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.52	16.36	4.848	1.851	4874	5.457	16.69	488.1	411.7	22.27	4.181	1.818	3.965	2.889	354.1	2.507
Denmark	(DKr)	53.98	10	8.831	2.617	0.999	2631	2.946	10.63	263.5	222.3	12.02	2.246	0.981	2.140	1.559	191.2	1.353
France	(FFr)	61.13	11.32	10	2.964	1.131	2979	3.336	12.03	298.4	251.7	13.61	2.544	1.111	2.424	1.766	216.5	1.532
Germany	(DM)	20.63	3.821	3.374	1	0.382	1005	1.126	4.061	100.7	84.93	4.593	0.858	0.375	0.818	0.596	73.04	0.517
Ireland	(I£)	54.04	10.01	8.840	2.620	1	2634	2.948	10.64	263.8	222.5	12.03	2.249	0.982	2.142	1.561	191.4	1.355
Italy	(L)	2.052	0.380	0.336	0.099	0.038	100.	0.112	0.404	10.01	8.448	0.457	0.085	0.037	0.081	0.059	7.266	0.051
Netherlands	(Fl)	18.32	3.394	2.996	0.888	0.339	893.1	1	3.608	89.44	75.45	4.061	0.762	0.333	0.727	0.529	64.89	0.459
Norway	(NKr)	50.79	9.409	8.308	2.463	0.940	2476	2.772	10	247.9	209.1	11.31	2.114	0.923	2.014	1.467	179.9	1.273
Portugal	(Es)	20.49	3.795	3.352	0.993	0.379	998.5	1.118	4.034	100.	84.36	4.562	0.853	0.372	0.812	0.592	72.55	0.514
Spain	(Pta)	24.29	4.499	3.973	1.177	0.449	1184	1.325	4.781	116.5	100.	5.408	1.011	0.442	0.963	0.702	86.00	0.609
Sweden	(SKr)	44.81	8.318	7.346	2.177	0.831	2189	2.451	8.841	219.2	164.9	10	1.869	0.818	1.780	1.297	159.0	1.126
Switzerland	(SFr)	24.03	4.452	3.931	1.165	0.445	1171	1.311	4.731	117.3	98.95	5.352	1	0.437	0.953	0.694	85.10	0.602
UK	(£)	55.01	10.18	8.999	2.667	1.018	2681	3.002	10.83	268.5	226.5	12.25	2.288	1	2.181	1.589	194.8	1.379
Canada	(C$)	25.22	4.672	4.126	1.223	0.467	1229	1.376	4.966	123.1	103.9	5.617	1.050	0.459	1	0.729	89.32	0.632
US	($)	34.62	6.413	5.663	1.678	0.641	1687	1.889	6.816	169.0	142.5	7.709	1.441	0.629	1.373	1	122.6	0.868
Japan	(Y)	28.24	5.231	4.620	1.369	0.523	1376	1.541	5.560	137.8	116.3	6.289	1.175	0.513	1.120	0.818	100.	0.708
Ecu		39.89	7.389	6.526	1.934	0.738	1944	2.177	7.854	194.7	164.2	8.883	1.660	0.725	1.582	1.152	141.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5954	0.5974	+0.0025	0.5983	0.5935	24,050	64,031
Sep	0.6007	0.6007	+0.0020	0.6013	0.6007	94	2,420
Dec	-	0.6027	-	-	-	93	125

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8190	0.8242	+0.0050	0.8266	0.8170	10,100	61,697
Sep	0.8375	0.8365	+0.0062	0.8375	0.8364	68	783
Dec	-	0.8418	-	-	-	2	195

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6917	0.6983	+0.0070	0.6988	0.6900	12,945	39,294
Sep	0.7038	0.7050	+0.0067	0.7050	0.7038	23	1,939
Dec	0.7115	0.7115	+0.0060	0.7115	0.7115	107	256

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5864	1.5842	-0.0014	1.5894	1.5830	9,530	37,499
Sep	1.5826	1.5820	-0.0016	1.5832	1.5820	23	1,270
Dec	-	1.5816	-	-	1.5800	10	13

UK INTEREST RATES

LONDON MONEY RATES

Mar 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¼ - 5¾	6 - 5⅞	6⅛ - 5⅞	6⅛ - 6⅛	6½ - 6⅜	6⅛ - 6⅛
Sterling CDs	-	-	6⅛ - 5⅞	6⅛ - 6⅛	6⅜ - 6⅛	6⅛ - 6⅛
Treasury Bills	-	-	5⅞ - 5⅞	6 - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅞	6 - 5⅞	6⅛ - 6⅛	-
Local authority deps.	5⅞ - 5⅛	5⅞ - 5⅞	6⅛ - 5⅞	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛
Discount Market deps	6⅛ - 5⅞	6 - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Mar 14, 5.8452pc. ECGD fixed rate Stlg. Export Finance. Make up day Feb 28, 1997. Agreed rate for period Mar 26, 1997 to Apr 21, 1997, Scheme III 7.53pc. Reference rate for period Feb 1, 1997 to Feb 28, 1997, Schemes IV & V 6.266pc. Finance House Base Rate 6½pc from Mar 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.74	93.74	-	93.75	93.73	5618	78244
Jun	93.51	93.50	-0.01	93.52	93.49	21713	132242
Sep	93.29	93.27	-0.02	93.30	93.26	15679	88074
Dec	93.09	93.06	-0.04	93.10	93.04	19365	68267
Mar	92.94	92.90	-0.06	92.94	92.89	7574	45633

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9350	0.24	0.12	0.11	0	0.12	0.34
9375	0.01	0.04	0.04	0.02	0.29	0.52
9400	0	0.01	0.01	0.26	0.51	0.74

Est. vol. total, Calls 1338 Puts 4850. Previous day's open int., Calls 228686 Puts 195178

EMS EUROPEAN CURRENCY UNIT RATES

Mar 18	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.740471	-0.001048	-7.29	10.69	49
Portugal	197.398	195.810	-0.083	-0.80	3.45	5
Finland	5.85424	5.86508	+0.02453	0.19	2.43	-1
Spain	163.826	165.192	-0.171	0.83	1.77	-6
Netherlands	2.16979	2.18890	-0.0009	0.88	1.73	-7
Germany	1.92573	1.94402	-0.00199	0.95	1.66	-9
Austria	13.5485	13.6825	-0.0131	0.99	1.62	-7
Belgium	39.7161	40.1146	-0.032	1.00	1.61	-7
Denmark	7.34555	7.42659	-0.00652	1.10	1.50	-8
France	6.45863	6.56126	-0.00619	1.59	1.02	-13
Italy	1906.48	1956.45	+5.05	2.62	0.00	-16
NON ERM MEMBERS						
Greece	295.269	306.958	-0.358	3.96	-1.29	-
UK	0.793103	0.727582	+0.00318	-8.26	11.69	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
1.590	1.42	2.21	-	1.37	2.35	-
1.600	1.00	1.78	2.25	2.06	2.87	3.40
1.610	0.67	1.40	-	2.68	3.49	-

Previous day's vol., Calls 729 Puts 1,334. Prev. day's open int., Calls 26,706 Puts 32,658

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Apr	CALLS May	CALLS Jun	PUTS Apr	PUTS May	PUTS Jun
0.590	0.73	1.11	1.36	0.43	0.69	0.85
0.595	0.48	0.85	1.09	0.67	0.83	1.09
0.600	0.31	0.63	0.87	0.99	1.22	1.36

Previous day's vol., Calls 665 Puts 977. Prev. day's open int., Calls 24,572 Puts 38,765

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.15	94.14	-0.01	94.15	94.11	121,461	484,806
Sep	93.91	93.90	-0.01	93.91	93.87	112,307	348,596
Dec	93.68	93.67	-0.01	93.69	93.63	72,308	248,174

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.83	94.83	-0.01	94.94	94.83	999	2,148
Jun	94.69	94.70	-0.02	94.71	94.69	332	5,007
Sep	94.45	94.46	-0.01	94.47	94.45	40	2,325

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
9650	0.18	0.19	0.20	0.16	0.01	0.02	0.03	0.10
9675	0	0.02	0.04	0.05	0.08	0.10	0.12	0.24
9700	0	0	0.01	0.01	0.33	0.33	0.34	0.45

Est. vol. total, Calls 39002 Puts 15697. Previous day's open int., Calls 407144 Puts 224224

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9825	0.06	0.14	0.18	0.17	0.26	0.38
9850	0.02	0.05	0.07	0.36	0.42	0.55

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 1050 Puts 1395

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00	* In administration	
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (a)

Fidelity Funds - Contd.

Fleming Group (u)

Mercury Asset Management S.A. - Contd.

ACM Global Investment - Contd.

Credis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Southern International SICAV

State Street Luxembourg SA

Stockbrand Scudder Environmental Value Fd

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

ENGINEERING - Cont.

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
BG		173½	+5	186½	134	7,677	11.0	17.5
International Energy		91	—	100	84½	61.3	4.8	11.0

HEALTH CARE

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Guernsey) Ltd				
PO Box 121, St. Peter Port Guernsey 01481 726726				
£ Stlg Managed	£4.872	5.024	—	-
£ European Stockmkt	£5.854	6.235	—	-
£ Intl Stockmkt	£5.681	6.100	—	-
£ Sterling Special Mkt	£4.507	4.846	—	-
£ UK Fixed Interest	£4.936	5.307	—	-
£ Stlg Money Mkt	£3.020	3.247	—	-
£ Capital Guarantee	£1.738	1.869	—	-
$ Dollar Managed	$3.491	3.699	—	-
$ Intl Stockmkt	$4.604	4.950	—	-
$ US Dollar Bond	$1.386	1.491	—	-
$ Nth Am Stkmkt	$4.355	4.682	—	-
$ Japan Stockmkt	$1.285	1.382	—	-
$ Pacific Stockmkt	$4.930	5.303	—	-
$ Emerging Asia Stockmkt	$2.304	2.478	—	-
$ Hong Kong Stockmkt	$8.006	8.606	—	-
$ Intl Fixed Interest	$3.845	4.135	—	-
$ Intl Mngd Currency	$2.457	2.683	—	-
$ Dollar Money Mkt	$2.299	2.472	—	-
$ Latin American Stkmkt	$1.147	1.233	—	-
$ Dollar Special Mkt	$0.988	1.062	—	-
$ Emerging Market Bond	$1.264	1.359	—	-
$ Emerging Stockmarkets	$0.971	1.045	—	-
Sun Alliance International Life				
PO Box 77, Ltd Echelons Ct, St Peter Port, Gsey 01481 714108				
US Dollar Global Managed	$2.24	2.41	—	-
Stg Global Managed	£2.22	2.40	—	-
Sun Life International (IOM) Ltd				
Bridge House, Castletown, Isle of Man				
ATSP Management Ltd				
Philippines Long Term Equity				
NAV Feb 28		$43.80	—	-
AXA Asset Management				
AXA Valeurs	FFr198.945		—	-
AXA Europe Actions Cap.	FFr358.442		—	-
AXA Europe Actions Dist.	FFr358.442		—	-
Apax Bank & Trust Company				
GCM Intl Commodities (OEIC)	$1294.00		—	-
GCM Intl Fixed Income (OEIC)	$1152.00		—	-
GCM Intl Equity (OEIC)	$130.92		—	-
Acciones y Valores de Mexico SA de CV				
Africa Emerging Markets Fund				
NAV Feb 28		$15.149	—	-
Agribusiness Fund Management Co				
ABC Bond		$10.60	—	-
Climat		$1.11	—	-

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
Global Asset Management - Contd.				
GAM Worldwide	$863.17		—	-
GAMerica	$662.87		—	-
GAM Composite	$437.71		—	-
GSAM Money Mkt US$	$101.03		+0.01	4.71
Do Sterling	£101.14		+0.01	5.28
Jardine Fleming Unit Trusts Ltd - Contd.				
JF Malaysia Tst	$37.86	40.00	-0.44	-
JF New Zealand Tst	$19.26	20.38	-0.11	-
JF Pakistan Trust	$3.50	3.71	-0.03	-
JF Philippine Tst	$111.45	117.82	-1.84	-
JF Taiwan Trust	$16.95	16.88	+0.47	-
JF Thailand Tst	$25.20	26.67	-0.21	-
JF India	$24.22	25.63	+0.24	-
JF Indonesia Trust	$11.72	12.41	-0.05	-

LONDON STOCK EXCHANGE

No real respite for beleaguered UK stocks

MARKETS REPORT

By Steve Thompson,
UK Stock Market Editor

It was more of the same for London's equity market yesterday with unease about US interest rates and the political uncertainty in the UK spreading to all sections of the market.

While the FTSE 100 leaders bore the brunt of the downside pressure on Monday, when May 1 was set as the date for the election, it was the turn of the second-liners and smaller capitalised stocks to suffer most yesterday.

The FTSE 100 index followed Monday's 51.0 slide with a further 16.5 fall to 4,356.8. The FTSE 250 posted a sharper 30.5 decline to 4,661.5 and the FTSE SmallCap dipped 12.8 to 2,352.4.

Marketmakers said London had come under renewed fire more or less from the opening of trading. Wall Street's late rally overnight, when it recaptured all of an 80-point slide and eventually finished 20 points higher, encouraged traders to hoist their opening quotations, only to run into unacceptably heavy flurries of selling pressure.

So, with the marketmakers cutting and running, share prices began to wilt, driving the various indices down with them.

At its worst, over lunchtime, Footsie was down 33.2 and looking exceedingly vulnerable, only to stabilise and rally afterwards. The FTSE 250 closed only 2.7 off the day's low while the SmallCap's closing level was the worst of the session.

There was evidence of a couple of small-sized programme trades, executed during the morning, but these were said to have had only a minor impact on the market's direction. At 6pm, turnover amounted to 836.7m shares, split almost 50-50 between Footsie and other stocks.

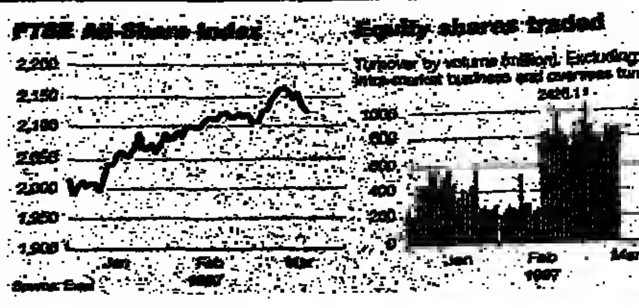
Dealers said the market's most pressing concerns were about the potential for a rate rise after next Tuesday's meeting of the Federal Reserve's open market committee. The odds slightly favour a 25 basis point increase, although many insist that US equity and bond markets have mostly factored in such a move.

Regarding the election, some observers said London might have to contend with a couple of weeks of turbulence but that could provide a good buying opportunity. "Once the fund managers come to terms with the probability of a Labour government we should see a turnaround in the market. The FTSE 100 index wasn't even in existence when the last Labour government was in power."

Others disagreed. Mr Richard Jeffrey, group economist and UK equity strategist at Charterhouse Tilney, the stockbroker, warned: "I expect the market to come off 5 per cent, or even more, between now and the election."

He pointed out that the yield on the US long bond is on the threshold of 7 per cent and would put pressure on UK gilts which are currently around 7.6 per cent "and rising", he said.

Wall Street gave little comfort to European markets yesterday, with the Dow Jones Industrial Average sliding more than 20 points not long after the opening. A stronger than expected rise in February housing starts was said to have prompted the fall.



Indices and ratios

FTSE 100	4356.8	-16.5
FTSE 250	4661.5	-30.5
FTSE 350	2153.8	-9.4
FTSE All-Share	2125.56	-9.46
FTSE All-Share yield	3.56	3.56
FT 30	2881.2	-15.8
FTSE Non-Fins p/e	18.54	18.62
FTSE100 Fut Mar	4361.0	-5.0
10 yr Gilt yield	7.50	7.48
Long gilt/equity yld ratio	2.11	2.09

Best performing sectors

1	Gas Distribution	+1.9
2	Oil, Integrated	+0.7
3	Mineral Extraction	+0.6
4	Oil Exploration	+0.5
5	Telecommunications	+0.3

Worst performing sectors

1	Insurance	-1.5
2	Paper, Pckg & Print	-1.4
3	Leisure & Hotels	-1.3
4	Distributors	-1.1
5	Water	-1.1

BT woos fund managers

By Peter John
and Lisa Wood

BT was heavily traded as it followed the diktats of one of its most successful slogans and started to "talk the talk".

The telecoms company has been busy preparing the buy story to accompany its proposed $20bn acquisition of MCI of the US. It kicked off its UK roadshow in London on Monday and moved up north for a presentation in Scotland today.

It has already charmed US investors and the essence of the presentation appears to be two-pronged.

First, strong confidence that regulatory approval in the UK and US will not be a problem. Second, the deal will be earnings-dilutive in the first year, but from then on double-earnings growth will be a feature of results statements.

Coincident with these good reports, two big blocks of shares, totalling almost 22m, were traded at 444¼p, possibly as a result of US buying.

The shares shrugged off concerns about a possible windfall tax by an incoming Labour government and ended the day up 6 at 442p. Final turnover was 49m shares one of the heaviest daily volumes on record.

British Steel may have topped the list of blue chip performers, but the phrase "dead cat bounce" was on some analysts lips.

The shares rose 4¼ to 158¼p on talk, later confirmed, that Krupp of Germany planned to launch a takeover bid for rival Thyssen.

The immediate view in the city was that a merger would cut surplus Western European capacity by about 2 per cent and thus provide relief to hard-pressed industry margins.

But, while Usinor Sacilor – the European leader on most valuations – jumped 4.4 per cent, BS only gained 2.8 per cent, and that gain follows some heavy selling last week.

The company has been seeing analysts and telling them that because of the strength of sterling it is being forced to cut its prices to compete.

The range of analysts' forecasts has come right down. SBC Warburg now stands at £150m for the year to March 1998 – the bottom of a broad range – and down from the previous analysts' consensus estimate of £360m.

Mr Mustapha Omar of Collins Stewart, who is on £175m for the coming year, said of the Krupp move: "It's a step in the right direction, but it's not going to revolutionise the steel industry."

UK banks ran into profit-taking following the sector's 12.5 per cent outperformance against the FTSE All-Share Index during the past six months.

The composite insurance sector, which has been sustained by bouts of takeover speculation in recent months, finally succumbed to the overall market pressures yesterday.

Commercial Union, one of the favourites to attract merger or bid activity, was aggressively sold, eventually closing 15 lower at 691½p on good turnover of 3.2m shares.

General Accident, meanwhile, was badly hit by news that it may lose one of its more lucrative US franchises in New Jersey. Persistent selling drove the shares down 17½ to 822p on turnover of 1.3m shares. Royal Sun Alliance slipped 8¼ to 461p, with some dealers taking the view that the keen selling since the preliminary results had been overdone.

NatWest, still suffering from big derivatives losses, dropped 15 to 711½p, the lowest level in more than two months.

Standard Chartered, which has underperformed the sector by about 8 per cent during the past six months, rose 10½ to 844p.

Grand Metropolitan hardened 1½ to 490p. A note from Dresdner Kleinwort Benson, which moved the stock from a "hold" to a "buy" said that the group's cash generation was far superior to that of its peers, but there had been scepticism as to whether this would be invested in a value-generating manner. However, the broker said that it was convinced that it would be and it expected a structured buy-back to begin this year. Guinness eased 6½ to 481½p ahead of its results tomorrow, with some fears of further currency downgrades.

A surprise profits warning adversely affected Waterford Foods, the Aim-listed stock, which fell 25 to 70 after announcing that 1996 profits would be below market expectations due to a severe imbalance between raw materials prices and market returns in the year.

EMI Group softened 15 to £11.65 and WH Smith eased 19½ to 459½p after a press report that a price war had erupted in the music market as retailers responded to aggressive price-cutting promotions by Tesco and Safeway the supermarket chains for hit albums.

Kingfisher weakened 9½ to 674½p ahead of its results tomorrow while there was said to be a substantial seller of MFI Furniture, which fell 7 to 145½p.

Limelight, the manufacturer and retailer of fitted household goods, tumbled a further 35 to 197½p – a two-day slide of 37 per cent – after a statement that trading in the first 12 weeks of the current financial year had been disappointing and total group sales were 11 per cent less than the same period last year.

Watmoughs fell 29½ to 407½p after the printing company's annual results disappointed investors.

Hardy Oil & Gas lifted 3 to 318½p. It said its commercial reserves nearly doubled last year due to successful discoveries. The company also announced a £200m credit facility to finance growth as well as acquisitions.

Publisher Dorling Kindersley tumbled 51 to 279p after the company warned that profits would fall short of last year's level. Dorling said tough conditions in the US retail book market, currency movements and increased investment in its direct selling business would hit profits.

It also restated its profits for the year to end-June 1996 to £12.9m from £17.4m to reflect a change in the way it accounts for multimedia development costs.

ICI fell 15 more to 716½p as the stock slipped below a chart support level in the wake of a recent downgrade.

Charter jumped 18½ to 797½p on relief from the engineering group's results. Also, the group highlighted its focus on boosting shareholder value. Charter's underlying profit from continuing businesses rose 3.3 per cent to £82.7m.

Britannic Assurance perked up 12 to 671p as the life insurance group promised to speed up the review and settlement of cases of pension mis-selling and reported a jump in profits for 1996.

FT 30 INDEX

	Mar 18	Mar 17	Mar 14	Mar 13	Mar 12	Yr ago	*High	*Low
FT 30	2881.2	2897.0	2930.2	2907.3	2922.6	2759.0	2931.4	2668.8
Ord. div. yield	3.92	3.90	3.85	3.88	3.85	3.94	4.22	3.76
P/E ratio net	17.73	17.83	18.07	17.88	18.04	16.31	18.09	15.80
P/E ratio nil	17.51	17.61	17.85	17.71	17.82	16.00	17.87	15.71

FT 30 since compilation: high 2931.4 10/03/97, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2897.9	2886.0	2878.1	2874.0	2874.5	2886.9	2888.2	2875.7	2880.7	2898.0	2868.2

	Mar 18	Mar 17	Mar 14	Mar 13	Mar 12	Yr ago
SEAQ bargains	59,560	57,730	54,977	53,471	54,136	41,026
Equity turnover (£m)†	-	NA	2768.1	2592.8	3014.9	2211.0
Equity bargains†	-	NA	51,211	51,267	54,306	43,592
Shares traded (ml)†	-	NA	1182.8	867.1	865.9	977.3

†Excluding intra-market and overseas turnover but including Grey turnover

	Mar 18	Mar 17	Mar 14	Mar 13	Mar 12	Yr ago	*High	*Low
FTSE AIM	1123.8	1127.6	1127.5	1133.9	1136.5	974.9	1140.4	985.7

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	286	Total Highs	60	Total contracts	48,765
Total Falls	996	Total Lows	58	Calls	19,814
Same	1,188			Puts	28,951

Mar 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	[illegible]	[illegible]	-5.0	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	-5.0	[illegible]	[illegible]	[illegible]	[illegible]
Sep		[illegible]	-5.5			0	[illegible]

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

■ FTSE 100 INDEX OPTION (LIFFE) (4356) £10 per full index point

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

FT GOLD MINES INDEX

[illegible]

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FTSE Actuaries Share Indices

The UK Series

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE 350 Industry baskets

Bldg & Cnstrcn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks, Retail	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE INTERNATIONAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind.		£24¼		*£31⅞	£20¼	1,968	3.2	Φ
Barlow		£7⅞xd		£9⅜	£5⅞	1,444	2.1	14.3
Gold Flds Prop R		141½	—	171½	120	14.5	6.5	10.2
SASOL		646		710	523	3,777	1.7	-
SA Brews		£19¾		£24⅛	£13⅝	5,779	1.8	Φ
Standard Bank		£26⅞		£31½	£21	3,182	1.4	22.8
Tiger Oats		1078	+13	1150	770	1,617	1.7	20.5
Tongaat-Hulett		775¼	—	1125	676¼	734.3	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings'formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- †‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue
n Rights issue pending
q Earnings based on preliminary figures
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
P Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

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4 pm close March 18

NEW YORK STOCK EXCHANGE PRICES

1996/97 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22	24¼	AAR	0.48	1.6	22	1524	27⅛	26¼	27	+1⅛
45⅝	33	AMP	1.04	2.8	28	4841	37⅞	37	37¼	-⅛
97½	68	AMR			9	3524	87⅞	85⅝	86¼	-⅛
50½	33¼	ASA	1.20	3.4	23	384	35⅝	35¼	35⅝	+⅛
60⅛	38⅛	Abbott	1.08	1.8	24	11071	59⅞	59½	59½	-⅜
17½	12¾	AbitibiPr x	0.40	2.5	6	574	16½	16	16⅛	-⅛
20¼	13½	ABM Ind	0.40	2.2	16	89	18⅜	17⅞	17⅞	-⅛
28	13⅞	Acptncdla			9	342	19	18⅝	18	-⅛
69⅞	37¾	ACE Ltd	0.72	1.1	10	985	64⅞	64⅜	64⅝	-¼
18¾	9½	ACM Gvt In x	0.90	8.6	11	326	10½	10⅜	10½	+⅛
7⅞	6⅝	ACM GvOpp x	0.63	8.5		80	7⅜	7⅜	7⅜	
9⅞	8⅞	ACM Man x	0.08	8.2		160	9¾	9⅝	9⅝	
13⅞	6⅛	Acme Elect				146	6⅞	6½	6⅞	+⅛
21⅝	13⅞	Acme Mills			58	66	15⅞	15¾	15¾	-⅛
33¾	27¼	Acordia	0.80	2.6	15	54	32¾	32¼	32¼	-½
29¾	12	Acuson				1828	26	24⅞	25½	-⅞
21⅛	17⅞	Adams Expr	0.55	2.7	1	486	20⅝	20¼	20¼	-⅜
48½	10¾	AdvMic				20075	45⅝	41⅞	41⅞	-3⅝
15	8½	Advest Grp			8	37	13½	13⅜	13⅜	
25⅛	9⅛	Advo Inc			28	149	12⅞	12¼	12¼	-⅜
79⅝	41⅞	Aegon	1.18	1.6	21	383	72⅛	71½	71¾	-1⅜
6¾	3½	Aerflx				162	4	3⅞	4	
67⅝	40⅞	AES Corp				20	63½	63½	63½	
93⅞	57⅜	Aetna	0.80	0.9	65	4059	89⅞	89	89⅜	-½
44	28¼	Aflac	0.40	1.0	15	2563	41⅞	40¼	41⅞	+1¾
33	17⅞	AGL Res	1.06	5.5	14	515	19¾	19⅝	19⅝	-⅛
45¼	21¼	Ahmanson	0.08	2.3	42	6067	40	38⅞	39	-¾
77⅝	50⅝	AirPrC	1.16	1.0	19	1486	74½	73⅝	74	-½
29	19½	Airbne Frt	0.30	1.0	22	648	28⅝	28¼	28⅝	+½
27⅛	18½	Airgas			31	1288	21	20⅝	21	+⅛
18⅞	11¾	Airlease	1.00	10.1	5	1080	11⅞	d18	10⅝	-1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

Dow Jones	Mar 17	Mar 14	Mar 13	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Industrials	6955.46	6935.46	6878.89	7085.16 (11/3/97)	5032.94 (10/1/96)	7085.16 (11/3/97)	41.22 (8/7/32)
Home Bonds	102.80	102.76	102.83	106.09 (14/2/96)	100.89 (15/7/96)	109.77 (18/10/93)	34.89 (1/10/81)
Transport	2448.63	2435.37	2423.97	2481.88 (10/3/97)	1882.71 (18/1/96)	2481.88 (10/3/97)	13.23 (8/7/32)
Utilities	224.71	224.22	221.91	240.85 (22/1/97)	204.86 (30/7/96)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7004.20†(6996.27) Low 6820.28†(6851.19) (Theoretical♣)
Day's high 6989.45†(6958.63) Low 6854.27†(6878.51) (Actual♣)

Standard and Poors	Mar 17	Mar 14	Mar 13	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Composite‡	795.71	793.17	789.56	816.29 (18/2/97)	598.48 (10/1/96)	816.29 (18/2/97)	4.40 (1/6/32)
Industrials♥	930.25	928.33	921.84	950.88 (18/2/97)	702.07 (15/1/96)	950.88 (18/2/97)	3.52 (30/6/32)
Financial	91.94	92.15	91.92	97.25 (10/3/97)	58.67 (10/1/96)	97.25 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	418.37	417.70	415.87	427.70 (10/3/97)	321.41 (10/1/96)	427.70 (10/3/97)	4.64 (25/4/42)
Amex Comp.	598.24	600.47	598.02	617.81 (22/5/96)	524.20 (16/7/96)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1279.43	1292.97	1293.28	1380.06 (22/1/97)	988.57 (15/1/96)	1380.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	Mar 14	Mar 7	Feb 28	Year ago
Dow Jones Ind. Div. Yield	1.95	1.93	1.96	2.15
	Mar 12	Mar 5	Feb 26	Year ago
S & P Ind. Div. yield	1.74	1.77	1.73	1.85
S & P Ind. P/E ratio	22.81	22.55	22.69	21.01

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Micron-Tech	11,877,800	43⅝	-1⅜
ADT	5,851,000	25⅝	+3⅜
McDonalds	5,826,700	46¼	+2
Compaq	5,744,400	77	+1⅛
Silicon Gph	5,424,800	20⅛	-2⅛
IBM	5,088,400	139½	-4⅛
Tyco	4,955,700	58¼	-2
Chrysler	4,765,900	29⅝	-⅛
Heritage Md	4,469,400	18	+5⅝
Pepsico	4,335,500	31	+⅛

■ TRADING ACTIVITY

● Volume (million)

	Mar 17	Mar 14	Mar 13
New York SE	486.594	464.323	503.737
Amex	19.813	16.536	19.833
NASDAQ	594.194	601.759	584.497
NYSE			
Issues Traded	3,322	3,329	3,334
Rises	848	1,418	518
Falls	1,634	1,052	2,074
Unchanged	840	859	742
New Highs	52	71	70
New Lows	84	41	40

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Mar	796.50	795.20	-1.70	798.20	795.20	26,756	89,366
Jun	804.05	802.40	-2.00	805.60	800.05	116,297	122,757

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	18080.0	18400.0	+340.0	18420.0	18050.0	33,460	238,923
Sep	18210.0	18210.0	+320.0	18210.0	18210.0	1	2,701

Open interest figures for previous day.

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Mar	2590.0	2576.0	-19.0	2601.0	2573.0	21,657	33,970
Apr	2593.5	2577.5	-19.0	2597.0	2576.0	13	1,646
■ DAX							
Mar	3370.0	3298.5	-35.5	3376.0	3293.5	49,862	114,113
Jun	3390.0	3316.0	-35.0	3393.5	3313.6	19,655	103,575
■ OMX							
Mar	2155.00	2115.00	-40.00	2155.00	2114.75	9,281	22,344
Apr	2135.00	2100.00	-40.50	2135.00	2100.50	3,150	3,668
■ SOFFEX							
Mar	4585.2	4512.0	-39.0	4585.0	4502.0	9,854	24,124
Apr	4550.0	4530.1	-27.9	4578.5	4520.0	2,319	5,732

Base values of all indices are 150 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEO Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; IMKB Nat 100 – 1; NYSE All Common – 50; Standard & Poor's – 70 and Amex Comp. – 550. Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † Correction. * Calculated at 15.00 GMT. ¶ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

♣ FT Free Annual Reports Service

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, March 18, 1997

	Stocks Traded	Closing Prices	Change on day
Fujitsu	8.6m	1240	+30
Nippon Steel Cp	6.8m	333	+5
Kumagai Gumi	6.2m	174	-1
Shiseido	5.8m	1540	+30
Seven-Eleven Jpn	5.5m	7350	+160
Bk Tk-Mitsubishi	5.2m	2010	+40
Nippon Credit Bk	5.2m	268	+16
NKK Corp	5.1m	280	
North Pac Bank	5.0m	608	+19
Fuji Kyuko	4.8m	535	+9

LONDON STOCK EXCHANGE

No real respite for beleaguered UK stocks

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

It was more of the same for London's equity market yesterday with unease about US interest rates and the political uncertainty in the UK spreading to all sections of the market.

While the FTSE 100 leaders bore the brunt of the downside pressure on Monday, when May 1 was set as the date for the election, it was the turn of the second-liners and smaller capitalised stocks to suffer most yesterday.

The FTSE 100 index followed Monday's 51.0 slide with a further 16.5 fall to 4,356.8. The FTSE 250 posted a sharper 30.5 decline to 4,661.5 and the FTSE SmallCap dipped 12.8 to 2,352.4.

Marketmakers said London had come under renewed fire more or less from the opening of trading. Wall Street's late rally overnight, when it recaptured all of an 80-point slide and eventually finished 20 points higher, encouraged traders to hoist their opening quotations, only to run into unacceptably heavy flurries of selling pressure.

So, with the marketmakers cutting and running, share prices began to wilt, driving the various indices down with them.

At its worst, over lunchtime, Footsie was down 33.2 and looking exceedingly vulnerable, only to stabilise and rally afterwards. The FTSE 250 closed only 2.7 off the day's low while the SmallCap's closing level was the worst of the session.

There was evidence of a couple of small-sized programme trades, executed during the morning, but these were said to have had only a minor impact on the market's direction. At 6pm, turnover amounted to 836.7m shares, split almost 50-50 between Footsie and other stocks.

Dealers said the market's most pressing concerns were about the potential for a rate rise after next Tuesday's meeting of the Federal Reserve's open market committee. The odds slightly favour a 25 basis point increase, although many insist that US equity and bond markets have mostly factored in such a move.

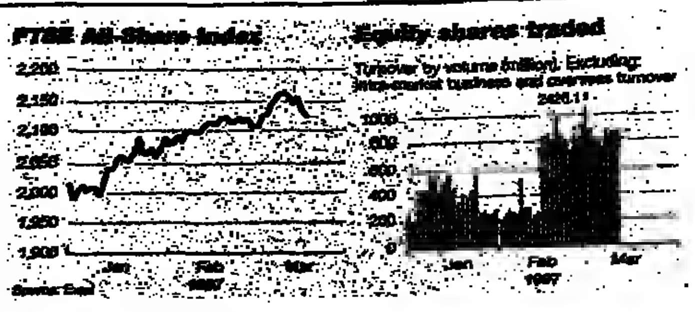
Regarding the election, some observers said London might have to contend with a couple of weeks of turbulence but that could provide a good buying opportunity. "Once the fund managers come to terms with the probability of a Labour government we should see a turnaround in the market. The FTSE 100 index wasn't even in existence when the last Labour government was in power."

Others disagreed. Mr Richard Jeffrey, group economist and UK equity strategist at Charterhouse Tilney, the stockbroker, warned: "I expect the market to come off 5 per cent, or even more, between now and the election."

He pointed out that the yield on the US long bond is on the threshold of 7 per cent and would put pressure on UK gilts which are currently around 7.6 per cent "and rising", he said.

Wall Street gave little comfort to European markets yesterday, with the Dow Jones Industrial Average sliding more than 20 points not long after the opening. A stronger than expected rise in February housing starts was said to have prompted the fall.

FTSE All-Share Index / Equity shares traded



Indices and ratios

FTSE 100	4356.8	-16.5	FT 30	2881.2	-15.8
FTSE 250	4661.5	-30.5	FTSE Non Fins p/e	18.54	18.62
FTSE 350	2153.8	-9.4	FTSE100 Fut Mar	4361.0	-5.0
FTSE All-Share	2125.56	-9.46	10 yr Gilt yield	7.50	7.48
FTSE All-Share yield	3.56	3.56	Long gilt/equity yld ratio	2.11	2.09

Best performing sectors

1 Gas Distribution +1.9
2 Oil, Integrated +0.7
3 Mineral Extraction +0.6
4 Oil Exploration +0.5
5 Telecommunications +0.3

Worst performing sectors

1 Insurance -1.5
2 Paper, Pckg & Print -1.4
3 Leisure & Hotels -1.3
4 Distributors -1.1
5 Water -1.1

BT woos fund managers

By Peter John and Lisa Wood

BT was heavily traded as it followed the diktats of one of its most successful slogans and started to "talk the talk".

The telecoms company has been busy preparing the buy story to accompany its proposed $20bn acquisition of MCI of the US. It kicked off its UK roadshow in London on Monday and moved up north for a presentation in Scotland today.

It has already charmed US investors and the essence of the presentation appears to be two-pronged.

First, strong confidence that regulatory approval in the UK and US will not be a problem. Second, the deal will be earnings-dilutive in the first year, but from then on double-earnings growth will be a feature of results statements.

Coincident with these good reports, two big blocks of shares, totalling almost 22m, were traded at 444¼p, possibly as a result of US buying.

The shares shrugged off concerns about a possible windfall tax by an incoming Labour government and ended the day up 6 at 442p. Final turnover was 43m shares one of the heaviest daily volumes on record.

British Steel may have topped the list of blue chip performers, but the phrase "dead cat bounce" was on some analysts lips.

The shares rose 4¼ to 158¼p on talk, later confirmed, that Krupp of Germany planned to launch a takeover bid for rival Thyssen.

The immediate view in the city was that a merger would cut surplus Western European capacity by about 2 per cent and thus provide relief to hard-pressed industry margins.

But, while Usinor Sacilor – the European leader on most valuations – jumped 4.4 per cent, BS only gained 2.8 per cent, and that gain follows some heavy selling last week.

The company has been seeing analysts and telling them that because of the strength of sterling it is being forced to cut its prices to compete.

The range of analysts' forecasts has come right down. SBC Warburg now stands at £150m for the year to March 1998 – the bottom of a broad range – and down from the previous analysts' consensus estimate of £360m.

Mr Mustapha Omar of Collins Stewart, who is on £175m for the coming year, said of the Krupp move: "It's a step in the right direction, but it's not going to revolutionise the steel industry."

UK banks ran into profit-taking following the sector's 12.5 per cent outperformance against the FTSE All-Share index during the past six months.

The composite insurance sector, which has been sustained by bouts of takeover speculation in recent months, finally succumbed to the overall market pressures yesterday.

Commercial Union, one of the favourites to attract merger or bid activity, was aggressively sold, eventually closing 15 lower at 691½p on good turnover of 3.2m shares.

General Accident, meanwhile, was badly hit by news that it may lose one of its more lucrative US franchises in New Jersey. Persistent selling drove the shares down 17½ to 822p on turnover of 1.3m shares. Royal Sun Alliance slipped 8½ to 461p, with some dealers taking the view that the keen selling since the preliminary results had been overdone.

NatWest, still suffering from big derivatives losses, dropped 15 to 711½p, the lowest level in more than two months.

Standard Chartered, which has underperformed the sector by about 8 per cent during the past six months, rose 10½ to 844p.

Grand Metropolitan hardened 1½ to 490p. A note from Dresdner Kleinwort Benson, which moved the stock from a "hold" to a "buy" said that the group's cash generation was far superior to that of its peers, but there had been scepticism as to whether this would be invested in a value-generating manner. However, the broker said that it was convinced that it would be and it expected a structured buy-back to begin this year. Guinness eased 6½ to 481½p ahead of its results tomorrow, with some fears of further currency downgrades.

A surprise profits warning adversely affected Waterford Foods, the Aim-listed stock, which fell 25 to 70 after announcing that 1996 profits would be below market expectations due to a severe imbalance between raw materials prices and market returns in the year.

EMI Group softened 15 to £11.65 and WH Smith eased 19½ to 459½p after a press report that a price war had erupted in the music market as retailers responded to aggressive price-cutting promotions by Tesco and Safeway the supermarket chains for hit albums.

Kingfisher weakened 9½ to 674½p ahead of its results tomorrow while there was said to be a substantial seller of MFI Furniture, which fell 7 to 145½p.

Limelight, the manufacturer and retailer of fitted household goods, tumbled a further 35 to 197½p – a two-day slide of 27 per cent – after a statement that trading in the first 12 weeks of the current financial year had been disappointing and total group sales were 11 per cent less than the same period last year.

Watmoughs fell 29½ to 407½p after the printing company's annual results disappointed investors.

Hardy Oil & Gas lifted 3 to 318½p. It said its commercial reserves nearly doubled last year due to successful discoveries. The company also announced a £200m credit facility to finance growth as well as acquisitions.

Publisher Dorling Kindersley tumbled 51 to 279p after the company warned that profits would fall short of last year's level. Dorling said tough conditions in the US retail book market, currency movements and increased investment in its direct selling business would hit profits.

It also restated its profits for the year to end-June 1996 to £12.9m from £17.4m to reflect a change in the way it accounts for multimedia development costs.

ICI fell 15 more to 716½p as the stock slipped below a chart support level in the wake of a recent downgrade.

Charter jumped 18½ to 797½p on relief from the engineering group's results. Also, the group highlighted its focus on boosting shareholder value. Charter's underlying profit from continuing businesses rose 3.3 per cent to £92.7m.

Britannic Assurance perked up 12 to 871p as the life insurance group promised to speed up the review and settlement of cases of pension mis-selling and reported a jump in profits for 1996.

FT 30 INDEX

	Mar 18	Mar 17	Mar 14	Mar 13	Mar 12	Yr ago	*High	*Low
FT 30	2881.2	2897.0	2930.2	2907.3	2922.6	2759.0	2931.4	2668.8
Ord. div. yield	3.92	3.90	3.85	3.88	3.85	3.94	4.22	3.76
P/E ratio net	17.73	17.83	18.07	17.93	18.04	16.31	18.09	15.80
P/E ratio nil	17.51	17.61	17.85	17.71	17.82	16.00	17.87	15.71

FT 30 since compilation: high 2931.4 10/03/97, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2897.9	2886.0	2878.1	2874.0	2874.5	2886.8	2868.2	2875.7	2880.7	2898.0	2868.2

	Mar 18	Mar 17	Mar 14	Mar 13	Mar 12	Yr ago
SEAQ bargains	69,560	57,730	54,977	53,471	54,136	41,026
Equity turnover (£m)†	-	NA	2768.1	2582.8	3014.9	2211.0
Equity bargains†	-	NA	51,211	51,267	54,306	43,592
Shares traded (mil)†	-	NA	1182.8	867.1	865.9	977.3

†Excluding intra-market and overseas turnover but including Crest turnover

	Mar 18	Mar 17	Mar 14	Mar 13	Mar 12	Yr ago	*High	*Low
FTSE AIM	1123.8	1127.6	1127.5	1133.9	1136.5	974.9	1146.4	985.7

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	286	Total Highs	60	Total contracts	48,765
Total Falls	986	Total Lows	58	Calls	19,814
Same	1,168			Puts	28,951

Mar 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	4360.0	4361.0	-5.0	4373.0	4339.0	19964	54908
Jun	4388.0	4392.5	-5.0	4403.0	4369.0	9872	39101
Sep		4408.0	-5.5			0	2404

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	4669.0	4660.0	-40.0	4669.0	4660.0	844	3227
Jun	4693.0	4685.0	-40.0	4693.0	4685.0	762	3127

FTSE 100 INDEX OPTION (LIFFE) (4355) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

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45 Retailers, General(53)
46 Breweries, Pubs & Rest.(22)
48 Support Services(38)
49 Transport(20)
60 UTILITIES(34)
62 Electricity(15)
64 Gas Distribution(2)
66 Telecommunications(9)
68 Water(11)
69 NON-FINANCIALS(660)
70 FINANCIALS(105)
71 Banks, Retail(8)
73 Insurance(24)
74 Life Assurance(7)
77 Other Financial(24)
79 Property(44)
80 INVESTMENT TRUSTS(127)
89 FTSE All-Share(912)
FTSE Fledgling
FTSE Fledgling ex IT

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Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										

FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]											
Pharmaceuticals	[illegible]											
Water	[illegible]											
Banks, Retail	[illegible]											

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FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

[illegible]

4 pm close March 18

NYSE PRICES

Continued from previous page

1996/97 High	Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
20⅛	12	SalvAB x	0.08	0.3	64	2104	17¾	17	17⅜	
29⅜	17	Scotsman	0.10	0.3	15	59	29¼	28⅞	29	
18⅛	12½	ScuddNAsF x	0.09	0.2		436	13⅝	13¼	13½	+⅛
15⅜	11	ScuddNEsF	0.09	0.4		321	15	14⅜	14⅞	
20⅛	14¾	SeaCoAB	0.77	4.5	14	144	17⅛	17⅛	17⅛	-⅜
16⅜	15	SeaC1.4625	1.46	9.5		z100	15⅜	15⅜	15⅜	
56¾	18	S'gate			36	22580	45¼	42½	43	-1⅝
42¾	30⅞	Seagram	0.66	1.7		3288	39¾	39	39½	-⅛
26	17⅛	Seagull En			31	1509	18¾	18½	18⅝	
44⅜	26	Sealed Air			26	1337	42¾	42¼	42½	+½
58¼	39¼	SearsR x	0.92	1.7	17	12073	55⅛	53⅝	54¼	
23	17	ScCpSBH	1.30	5.4	18	736	24½	24¼	24¼	-¼
13	11⅞	Seligm Sel x	0.84	6.7		185	12⅝	12½	12⅝	-⅛
23¾	13⅝	Sensormat	0.22	1.3		550	17⅛	16⅞	17⅛	+¼
48⅞	29½	SequaA	0.80	1.3	40	126	u48⅞	48¼	48½	-⅛
50⅝	30	SequaB	0.80	1.1	60	z0	47½	47½	47½	
33⅞	19½	ServiCp	0.30	0.9	29	7225	32¾	31¾	32	-⅞
28⅝	19½	Svktr	0.68	2.6	15	459	26⅜	26⅛	26¼	-⅛
6½	3½	SvMerch			8	4885	3⅝	d3⅜	3½	-⅛
80⅞	28½	SGSThm			15	1181	71⅛	69¼	69⅝	-⅝
15⅝	10⅝	Shaw Ind	0.30	2.2	75	2280	13¾	13½	13⅝	
17	10⅛	Shelby Wil	0.32	2.1	15	40	15⅛	14¾	15⅛	+½
107½	76⅝	ShellTr	4.64	4.5	22	716	104⅛	103½	103⅝	-⅛
58¼	39	SherWil x	0.80	1.4	29	1280	56⅞	54¾	55½	-1¾
19⅜	5	Shoneys			17	5468	5⅜	d5	5⅜	-¼
35½	17	Showboat	0.10	0.3	36	149	20⅛	20	20	-⅛
39¾	22¾	Sierra Pac	1.24	4.2	13	225	29⅝	29¼	29¼	+⅛
4	2	SignalApp				z0	2⅜	2⅜	2⅜	
32⅞	30	Signet Bnk	0.84	2.8	14	8789	30¾	30	30	-⅝
30⅜	17⅞	SiliconGr				16199	20⅛	19½	19⅝	-½
32¾	24¼	SimonDbd	1.97	6.3	30	805	32	31¾	31½	-¼
10⅝	7⅜	Sizeler	0.88	8.0	37	467	10¾	10¼	10¼	-⅛
4¼	2	Sizzler				59	2⅜	2¼	2¼	+⅛
28½	19¾	Skyline x	0.60	2.6	10	688	23¾	23	23¼	-¾
11¾	6⅝	SL Inds	0.08	0.8	11	191	7¼	7	7½	
5	3	Zapata				42	4¾	4⅝	4¾	
25¾	5⅞	ZenithEl				19484	12⅜	9½	11¾	+2¼
28⅞	21¼	Zenith Nat	1.00	3.7	12	182	27	26¾	26⅞	+⅛
7½	6½	Zenix Inc	0.73	10.1		322	7⅜	7¼	7¼	-⅛
28¾	15⅛	Zero	0.12	0.8	17	117	21⅜	21⅝	21⅝	-¼
11⅝	10½	ZweigFd	1.12	10.0		265	11¼	11⅛	11¼	
8	6	Zweig Tot x	0.84	9.9		392	6⅝	6½	6½	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
4 Dealings suspended.

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AMEX PRICES

4 pm close March 18

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
NY TmA x	0.60	23	2815	u45⅝	46	45⅜	

NASDAQ NATIONAL MARKET

4 pm close March 18

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
InglesMkt	0.66	10	192	14⅞	14½	14¾	-⅛
IntegrDev			8489	11.38	10⅜	10 7/16	-11/16
IntgldSys		94	677	22¼	21¼	21¾	+¾
IntgldWst			82	25/32	d13/16	13/16	
Intel	0.20	23	111780	138	135⅝	136¾	+⅜
IntlgntSl			1625	3½	3 5/16	3⅜	+1/16
Inter Tel		16	587	13⅞	13⅛	13¼	-⅛
InterfceA x	0.26	20	3331	u25¼	24¼	25⅛	+11/16
Intgph			901	8⅛	7⅞	8	
Interleaf			479	2⅛	1 13/16	1 13/16	-3/16
Intersolv		21	1067	8⅝	d8⅜	8⅛	-⅛
Intervoic		12	990	11⅜	10¾	10¾	-½
IntDairyQA		14	264	22½	21¾	22⅛	-⅛
Invacare	0.08	10	867	26¼	24¼	24¾	-¾
IsoVolado x	1.05	24	z100	173	173	173	
- J -							
J&J Snack		22	278	13¼	12⅞	13	-¼
Jason Inc		18	67	7	7	7	+¼
Johnson W			z100	12	12	12	-1
Jones Int			211	9⅝	8⅜	9⅝	+⅛
Jones Med	0.08	36	6242	25¾	23¾	23⅞	-1⅜
JSB Fin	1.40	15	44	42½	41	41	-1½
Juno Ltg x	0.32	14	350	15¾	15½	15¾	+1/16
Justin	0.16	12	266	11⅜	11⅜	11⅜	-¼
- K -							
K Swiss	0.08	112	26	12⅜	11⅝	12⅜	
Kaman Cp	0.44	12	31	13⅞	13⅝	13⅝	-¼
Kelly Sv	0.84	14	230	27½	27⅛	27⅛	-¼
Kimball	1.04	14	208	38	37¼	37½	+¼
KLA Instr		18	14180	39	36¾	38½	+1⅜
Koll A			680	1/16	1/32	0.18	
Komag		13	3808	29¾	28⅜	28⅝	-⅜
Kulicke S			3133	23¾	21⅞	22¼	-⅛
- L -							
Labone	0.72	60	2	17⅝	17⅝	17⅝	-⅜
Ladd Furn			97	15	14¾	14¾	-⅜
Lam Rsch		10	15605	34⅝	32¼	33.77	-.74
Lancaster x	0.72	16	666	48½	46	46⅜	+⅛
Lance	0.96	21	100	17⅞	17¼	17⅜	-¼
- P - Q -							
Paychex	0.36	50	10413	45½	44⅝	44¾	+½
Peerless	0.50	15	189	11⅝	11¼	11½	+¼
Penn Trty		16	77	20	27⅜	27½	+⅛
Penn Virg x	1.80	14	63	45	44½	44 9/16	+9/16
Pentech I			299	1 7/16	1⅜	1 7/16	+1/16
Penwest L	0.20	33	14	19¼	16¾	16	+¼
PeopBnkCt	0.88	17	1551	35¼	34	34	-1¼
Peoples H	0.72	15	1653	31⅞	31½	31 11/16	+3/16
Peoplesoft			7126	43⅞	41¼	41⅜	-1
Perrigo		22	529	12	11⅝	11¾	-¼
Petrolite	1.12	27	12	58⅜	58¼	58¼	-¼
PETsMART			9003	16¼	18⅝	18⅛	+½
PharmDev		52	3193	23¾	22¾	22¾	-¾
PhoenxTch		27	3381	16¼	15⅛	15.77	-.40
PhysCpAm			1139	4⅞	4¼	4¼	-7/16
Picturetel		14	4674	14⅜	14	14¼	
PioneerGp x	0.40	35	229	26¾	26⅛	26⅛	-¼
PioneerSt	0.12	12	517	13¼	12⅜	15	-¼
Pixar		35	640	19¾	16	19¾	-⅛
PlHwrdA		36	1706	10	17½	17⅝	+⅛
PLDTel		7	z0	8	6	6	
Pacebk	0.68	6	186	22⅝	22	22⅛	+⅛
Powell		15	92	14½	14⅛	14½	+⅛
PresCas			301	11/16	⅜	⅝	-1/16
Pres Life x	0.20	13	236	15⅛	14⅞	14 15/16	+1/32
Presstek		106	1087	47	44	45¾	
PridePt		27	3353	18⅜	18¾	16⅞	-⅛
Printroni		10	754	14¼	13½	13⅞	-.10
Prod Ops	0.28	29	282	54⅜	62¾	53⅝	+½
Qualcomm		20	113604	58	55⅝	56⅜	-1⅜
Qual Food		23	z0	39⅞	39⅞	39⅞	
Quantum		20	26309	38	35½	26⅞	-⅛
Quicksilv		15	309	24⅞	23¾	24	-1
Quintiles		491	3719	64	63⅜	63⅞	-¼
- R -							
Rainbow		12	96	17⅜	16⅞	16⅞	-⅛
Rallys			423	3½	3¼	3¼	-¼
Raymond x	0.25	13	238	26	27⅞	27⅞	-.10
RCSB Fin	0.60	12	3142	33½	33¾	32¾	-⅛
Read-Rite			19112	27½	24⅞	25¾	-⅞
Recoton		12	517	14⅛	13¾	13 15/16	-3/16
RegFlnCp x			1910	60⅝	59⅜	59⅜	-⅜
Repligen			774	1¼	1 7/32	1¼	+1/16
Repub Ind			5422	35⅛	34¼	34¼	-½
ResrchMed		23	z0	23¼	23¼	23¼	
- U -							
UST Corp	0.32	11	832	21⅛	20¾	20¾	-1/16
Utah Med	0.08	12	z0	11⅜	11⅜	11⅝	
Utd Telev x	0.50	20	178	89 5/16	88⅛	89 9/16	+1 1/16
Utlx			60	4½	4¼	4¼	-¼
- V -							
Valmont	0.40	27	48	41¾	41½	41⅝	-⅛
Vngrd Cell		83	1287	13⅝	13⅜	13⅜	-⅛
Varlen	0.36	7	239	19½	18¾	19¼	+¼
Ventritex			3399	17¼	16½	19⅞	-¼
Vicor		24	1724	15	13⅞	14¾	-⅛
VicorpRst		61	44	12⅜	12¼	12⅜	-¼
Viewlogic		22	2419	15¼	15	15⅛	-⅛
VLSI Tech		38	7957	18¼	17¾	17 15/16	-⅜
Volvo B	0.80		1095	24 1/16	23⅞	23 15/16	-7/16
- W -							
Wang Lab			4384	20⅛	19⅝	20	-⅛
Warmtech		29	632	9⅞	9½	9 13/16	+1/16
WashMut	1.00	14	10041	51⅞	50¼	50½	-⅝
WatsindA	0.31		251	25⅞	25½	25¾	+⅛
Wausau PM x	0.25	15	757	20¼	18	19⅛	-1⅛
WD-40	2.48	18	63	50¼	49¼	49¼	-¼
Werner En	0.10	15	750	17⅛	16¼	16½	-½
Westam Bnc	1.04	18	164	67⅜	68	68½	+⅛
WstpStA		20	1646	u38⅝	36⅝	38	+1¼
Wet SealA		22	2108	24⅞	23½	23⅞	-⅝
Wilmtn	1.28	18	z0	63½	63½	63½	
WmsSonoma		36	1186	31½	30⅞	31¼	+⅛
Wolohan L x	0.28	15	17	14⅜	14⅛	14⅛	-⅛
Wrldcm		23	62155	24	23½	23⅝	
Worthgtn x	0.48	22	912	21	20⅝	20 13/16	+3/16
WPP ADR	0.10	23	107	42½	42	42⅛	-⅜
Wyman-Gdn	0.40	28	1255	20⅛	19½	20⅛	+¼
- X - Y - Z -							
Xilinx		25	31276	46	43⅜	43⅝	-2⅛
Xircom		27	812	16⅛	15⅜	15⅝	-¼
Xoma Corp			3804	5⅞	5 9/16	5⅜	-7/32
Yellow			604	17¼	16⅞	17¼	+¼
York Rsch		10	477	8	8¾	0	
ZionsUtah	1.76	17	430	123⅝	119⅛	120¾	-2¼

EASDAQ

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$8.125		0	8.25	8	Innogenetics	US$12.25	-0.125	52313	12.625	10.5
Artwork Systems	US$10.875		84888	11.375	10.25	Mercer Internatl.	US$8.875		0	11.375	8.875
Dr Solomon's ADS	US$24.625	-0.5	0	26	22.75	PixTech	US$5		1100	6.25	4.75
Esprit Telecom ADS	US$12.25		1000	12.5	12						

Prices for 18/3/97.

Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be
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4 pm close March 18

NEW YORK STOCK EXCHANGE PRICES

1996/97 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
32	24¼	AAR	0.48	1.8	22	1524	27⅜	26¾	27	+1⅛
46⅛	33	AMP	1.04	2.8	20	4841	37⅞	37	37¼	-⅛
87½	58	AMR			6	3924	87⅞	85⅝	86¼	-⅛
50½	33¼	ASA	1.20	3.4	23	384	35⅝	35⅛	35⅝	+⅛
60⅛	38⅝	AbbtL	1.08	1.8	24	11071	59⅞	59⅛	59½	-⅛
17½	12¼	Abitibi Pr x	0.40	2.5	6	874	16⅛	16	16⅛	-⅛
20¼	13½	ABM Ind	0.40	2.2	16	80	18⅛	17⅞	17⅞	-⅛
22	13⅞	Acplacein			0	342	19	18⅞	18	-⅛
66⅞	32¼	ACE Ltd	0.72	1.1	10	985	64⅞	64⅛	64⅞	-⅛
19¾	9⅛	ACM Gvt In x	0.90	8.6	11	328	10½	10⅜	10½	+⅛
7⅞	6⅝	ACM GrOpp x	0.63	6.5		65	7⅜	7¼	7⅜	
9⅞	6¾	ACM Man x	0.90	9.2		180	9¾	9⅝	9¾	
13⅞	6⅛	Acme Elect				140	8⅝	8½	8⅞	+⅛
21⅞	13⅞	Acme Mills			60	66	15⅞	15¾	15¾	-⅛
33¾	27¼	Acordia	0.80	2.5	15	34	32¾	32¼	32¼	-½
29¾	12	Acuson				1623	26	24½	29½	-⅞
21⅞	17⅞	Adams Expr	0.55	2.7	1	436	20⅝	20¼	20¼	-⅛
48½	10¼	Adaptec				20075	45⅝	41⅞	41⅞	-3⅝
15	8½	Advest Grp			6	21	13½	13⅛	13⅜	
28⅛	6⅛	Advo Inc			20	149	12⅝	12¼	12¼	-⅛
73⅝	41⅛	Aegon	1.16	1.6	31	393	72¾	71½	71¼	-1⅜
6⅝	5½	Aeroflex				102	4	3¾	4	
67⅞	40⅝	AES Corp				20	63½	63½	63½	

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

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